台州市水務集團股份有限公司
Taizhou Water Group Co., Ltd.*

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

Stock code : 1542

GLOBAL OFFERING

Sole Sponsor

國金證券(香港)有限公司
SINOLINK SECURITIES (HK) CO. LTD.

Sole Global Coordinator

Innovax Securities

Joint Bookrunners and Joint Lead Managers

Innovax Securities

光大新鴻基
EVERBRIGHT SUN HUNG KAI

** for identification only*

IMPORTANT

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

Taizhou Water Group Co., Ltd.*
台州市水務集團股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares	**:**	**50,000,000 H Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**5,000,000 H Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**45,000,000 H Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$5.01 per H Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)**
Nominal value	**:**	**RMB1.00 per H Share**
Stock code	**:**	**1542**

Sole Sponsor

國金證券(香港)有限公司
SINOLINK SECURITIES (HK) CO. LTD.

Sole Global Coordinator

Innovax Securities

Joint Bookrunners and Joint Lead Managers

Innovax Securities

光大新鴻基
EVERBRIGHT SUN HUNG KAI

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

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

The Offer Price is expected to be determined by an agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around Friday, 20 December 2019 or such later date as may be agreed between the parties, but in any event no later than Monday 23, December 2019. The Offer Price will not be more than HK$5.01 per each Offer Share and is currently expected to be not less than HK$4.21 per each Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$5.01 for each Offer Share together with brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK$4.21. If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price on or before Monday, 23 December 2019, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range 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 case, a notice of such reduction will be published on the Stock Exchange's website at www.hkexnews.hk and our website at www.zjtzwater.com, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk factors", "Summary of principal PRC and Hong Kong legal and regulatory provisions" in Appendix IV to this prospectus and "Summary of the Articles of Association" in Appendix V to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscriptions or purchase of, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth in "Underwriting — Underwriting arrangements and expenses — the Hong Kong Public Offering — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

* *for identification only*

17 December 2019

If there is any change to the following expected timetable, we will publish an announcement on the Stock Exchange's website and our Company's website.

2019[1]

Latest time for completing electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . . 11:30 a.m. on Friday, 20 December

Application lists open[3] . . . . . 11:45 a.m. on Friday, 20 December

Latest time for lodging **WHITE** and **YELLOW** Application Forms . . . . . 12:00 noon on Friday, 20 December

Latest time for completing payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Friday, 20 December

Latest time for giving **electronic application instructions** to HKSCC[4] . . . . . 12:00 noon on Friday, 20 December

Application lists close[3] . . . . . 12:00 noon on Friday, 20 December

Expected Price Determination Date[5] . . . . . Friday, 20 December

Announcement of the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published on the websites of the Stock Exchange at **www.hkexnews.hk**[6] and our Company at **www.zjtzwater.com**[7] on or before . . . . . Monday, 30 December

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 including the websites of the Stock Exchange at **www.hkexnews.hk**[6] and our Company at **www.zjtzwater.com**[7] (See "How to apply for the Hong Kong Offer Shares — 11. Publication of results" in this prospectus) from . . . . . Monday, 30 December

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from . . . . . Monday, 30 December

Despatch/collection of H Share certificates or deposit of the H Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on[8]&[10] . . . . . Monday, 30 December

Despatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[9]&[10] . . . . . Monday, 30 December

Dealings in the H Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . Tuesday, 31 December

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) 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 a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 December 2019, the application lists will not open or close on that day. Please refer to "How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather and Extreme Conditions on the opening of the Application Lists" in this prospectus.

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to "How to apply for the Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or around Friday, 20 December 2019 and, in any event, not later than Monday, 23 December 2019. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us by Monday, 23 December 2019, the Global Offering will not proceed and will lapse.

(6) The announcement will be available for viewing on the "Main board — Results of allotment" page on the Stock Exchange's website at **www.hkexnews.hk**.

(7) Neither our Company's website nor any of the information contained on our Company's website forms part of this prospectus.

(8) H Share certificates will only become valid at 8:00 a.m. on Tuesday, 31 December 2019 provided that the Global Offering has become unconditional in all respects and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid to do so at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

(9) 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 encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

(10) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or H Share certificates in person from our Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 30 December 2019 or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our H Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for the collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to apply for the Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this prospectus for details. Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

The above expected timetable is a summary only. You should refer to "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus for details of the structure and conditions of the Global Offering, including the conditions of the Global Offering and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or invitation in any other jurisdiction or in any other circumstance. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. 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 pursuant to registration with, or authorisation by, the relevant securities regulatory authorities or an exemption therefrom.

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 contained nor made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers and any of the Underwriters, any of our or their respective directors, advisers, officers, employees, agents, affiliates or representatives or any other persons or parties involved in the Global Offering. The information contained in our website at ***www.zjtzwater.com*** *does not form part of this prospectus.*

Page

EXPECTED TIMETABLE i

CONTENTS iv

SUMMARY 1

DEFINITIONS 20

GLOSSARY OF TECHNICAL TERMS 39

FORWARD-LOOKING STATEMENTS 41

RISK FACTORS 43

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES 63

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING 67

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING 71

CONTENTS

CORPORATE INFORMATION 77

INDUSTRY OVERVIEW 80

REGULATORY OVERVIEW 100

HISTORY AND CORPORATE STRUCTURE 118

BUSINESS 137

CONNECTED TRANSACTIONS 203

RELATIONSHIP WITH TAIZHOU SCOG 214

SUBSTANTIAL SHAREHOLDERS 220

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT 223

SHARE CAPITAL 241

FINANCIAL INFORMATION 245

CORNERSTONE INVESTOR 303

FUTURE PLANS AND USE OF PROCEEDS 306

UNDERWRITING 309

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING 320

HOW TO APPLY FOR THE HONG KONG OFFER SHARES 330

APPENDIX I — ACCOUNTANTS' REPORT I-1

APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION II-1

APPENDIX III — TAXATION AND FOREIGN EXCHANGE III-1

APPENDIX IV — SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS IV-1

APPENDIX V — SUMMARY OF THE ARTICLES OF ASSOCIATION . . . V-1

APPENDIX VI — STATUTORY AND GENERAL INFORMATION VI-1

APPENDIX VII — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION VII-1

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the entire prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks associated with an investment in the Offer Shares are set out in "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in "Definitions" in this prospectus.

OVERVIEW

We are a leading water supply service provider in Taizhou supplying raw water and municipal water. According to the Frost & Sullivan Report, we ranked (i) fifth and first in raw water supply in Zhejiang Province and Taizhou, with a market share of 3.8% and 43.8%, respectively; and (ii) first in municipal water supply in Taizhou, with a market share of 35.1%, both in terms of water supply capacity in 2018. To a lesser extent, we also supply tap water to end-users.

We have a proven track record in the water supply industry in Taizhou. Our Predecessor Company commenced the business of water supply service in Taizhou in 1995. We currently own and operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), and these two water supply systems supply raw water and municipal water to the South Area of Taizhou. According to the Frost & Sullivan Report, the total population of the South Area of Taizhou is 3.97 million, representing 64.7% of the total population of Taizhou in 2018. The Taizhou Water Supply System (Phase I) supplies raw water with a designed raw water supply capacity of 280,000 tonnes per day, and the Taizhou Water Supply System (Phase II) supplies raw water and municipal water with a designed raw water supply capacity of 490,000 tonnes per day and designed municipal water supply capacity of 366,000 tonnes per day. For details of these two water supply systems, please refer to "Business — Our water supply systems" of this prospectus.

We have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity. The water of Changtan Reservoir is classified into Category I, which is the highest category among surface water under the Environmental Quality Standards for Surface Water (GB3838-2002). In respect of the exclusive right granted, no specific period and maximum volume of water can be drawn are stated nor are there any conditions. However, we have to draw water within the maximum water volume as set out in the Water Intake Permit, which currently is 280 million tonnes per year and is fixed with reference to factors including our current water supply capacity and the water demand in the South Area of Taizhou. In light of the expected commencement of operations of our new water supply systems, we will apply for a new Water Intake Permit with a revised water supply volume, and it is anticipated that there will be no material impediment in obtaining such a new Water Intake Permit.

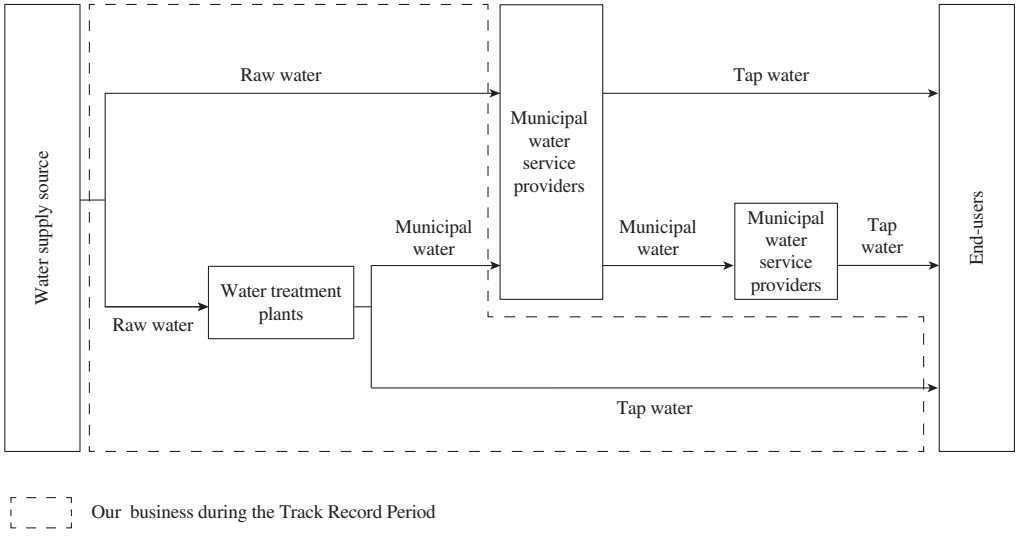
For the three years ended 31 December 2018, we recorded a steady growth. Our revenue derived from our Continued Operations increased from RMB410.1 million for the year ended 31 December 2016 to RMB462.9 million for the year ended 31 December 2017, and further increased to RMB504.3 million for the year ended 31 December 2018, representing a CAGR of 10.9%. Our revenue derived from our Continued Operations decreased from RMB243.3 million for the six months ended 30 June 2018 to RMB225.8 million for the six months ended 30 June 2019.

With the continuous increase in urbanisation rate and development of Taizhou, this is expected to lead to an increase in demand for reliable and safe water by the public. We have obtained approvals from the relevant local government authorities to construct the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). Each of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) was accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目). These two water supply systems will provide both raw water and municipal water, and are designed to cater for the potential growth in demand for water in the long term. The designed water supply capacity of the Taizhou Water Supply System (Phase III) is 1,000,000 tonnes per day for raw water and 884,000 tonnes per day for municipal water in the long term. The designed water supply capacity of the Taizhou Water Supply System (Phase IV) is 300,000 tonnes per day for raw water and 200,000 tonnes per day for municipal water in the long term. As of the Latest Practicable Date, we had commenced the construction of these projects. For details, please refer to "Business — Our water supply systems" of this prospectus.

OUR BUSINESS MODEL

We supply raw water, municipal water and tap water in Taizhou through the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). The Taizhou Water Supply System (Phase I) supplies raw water while the Taizhou Water Supply System (Phase II) supplies raw water, municipal water and tap water. We sell tap water directly to end-users including commercial users, government authorities, industrial users and residential households.

The chart below sets out our business model:



Raw water supply: We draw raw water directly from Changtan Reservoir, and the raw water would be transmitted through the water diversion and supply networks of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) to water treatment plants of our customers, who are mainly municipal water service providers and they

will process the raw water into municipal water meeting the drinkable water standard and supply the municipal water to their customers, which include other municipal water service providers and end-users.

Municipal water supply: Raw water drawn from Changtan Reservoir is transmitted to our water treatment plant, namely Taizhou Water Treatment Plant, where the raw water would be processed to meet the standard of drinkable water. The municipal water would then be supplied to our customers, mainly the municipal water service providers, who to our knowledge would sell the municipal water supplied by us to their customers, including other municipal water service providers and end-users.

Tap water supply: We own and operate Zeguo Water Treatment Plant. Wenling Zeguo Water Supply, our wholly-owned subsidiary, supplies tap water directly to the end-users, which include commercial users, government authorities, industrial users and residential households located in Zeguo Town, Wenling City. In connection with this, we also provide installation services of connecting the water pipelines to the end-users.

We did not involve in public-to-private service concession arrangement and our water supply projects are operated in the form of build-own-operate model and we are not operating our water supply systems under concession arrangements. Our existing and new water supply systems are not accounted for under HK(IFRIC) Int-12.

Our selling prices of raw water, municipal water and tap water are fixed by local pricing authorities. We have to sell our raw water, municipal water and tap water at such fixed prices. Though we may be able to participate in and provide our views during the price-fixing process, the selling prices finally fixed may be less than we expect resulting in a lower profit margin than we prefer. When fixing the prices, the local pricing authorities takes into account the costs factors. According to the relevant laws and regulations, water supply service providers may not apply for a review of the prices fixed by the local pricing authorities. However, a water service provider may apply for a price adjustment if it meets certain conditions including it still suffers losses with government subsidies. For further details, please refer to "Regulatory overview — Pricing" and "Risk factors — The raw water procurement fee and the water resources fee we pay to the local government authorities for water drawn from Changtan Reservoir and the unit price of water we sell to our customers is fixed by the local pricing authorities and subject to change beyond our control" of this prospectus.

The table below sets out the applicable selling prices of our raw water, municipal water and tap water during the Track Record Period. The selling price ranges in the below table for raw water and municipal water show the lowest and highest selling prices among the companies to whom we sell. The selling price ranges for tap water refer to the prices for different categories of users. Please refer to "Business — Our water supply services — Pricing" of this prospectus for details.

	Year ended 31 December			**Six months ended 30 June**
	2016	**2017**	**2018**	**2019**
	RMB/tonne	*RMB/tonne*	*RMB/tonne*	*RMB/tonne*
Raw water	0.527–1.667	0.527–1.667	0.627–1.767	0.627–1.767
Municipal water	2.37–2.52	2.37–2.52	2.47–2.62	2.47–2.62
Tap water	3.5–4.8	3.9–7.8	3.9–7.8	4.0–14.1

The following table sets out the breakdown of our revenue and percentage of total revenue of our Continued Operations by product/service categories for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
Water supply										
Raw water	98,965	24.1	101,138	21.8	112,415	22.3	56,221	23.1	55,559	24.6
Municipal water	269,394	65.7	314,013	67.8	340,049	67.4	164,730	67.7	146,304	64.8
Tap water	35,609	8.7	41,314	8.9	44,869	8.9	20,456	8.4	19,970	8.8
Installation services	6,085	1.5	6,436	1.5	6,930	1.4	1,881	0.8	3,953	1.8
Total	**410,053**	**100.0**	**462,901**	**100.0**	**504,263**	**100.0**	**243,288**	**100.0**	**225,786**	**100.0**

We derive the majority of our revenue from the sales of raw water and municipal water to municipal water service providers in Taizhou, which accounted for 89.8%, 89.6%, 89.7% and 89.4% of our total revenue of our Continued Operations for the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, respectively. We also supply tap water directly to end-users and engage in the installation of the water pipelines for distributing tap water to our end-users, the aggregate revenue generated from which accounted for 10.2%, 10.4%, 10.3% and 10.6% of our total revenue, respectively, for the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019. We recognise sales of water at the point of time when control of the water is transferred to the customers, generally on delivery of the water, net of VAT. Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, on the basis of the actual cost expended relative to the total expected cost to complete the service, net of VAT.

The table below sets out the sales volume and the average unit selling price of our water for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	(tonnes'000)	*(RMB)* [(1)]	*(tonnes'000)*	*(RMB)* [(1)]	*(tonnes'000)*	*(RMB)* [(1)]	*(tonnes'000)*	*(RMB)* [(1)]	*(tonnes'000)*	*(RMB)* [(1)]
Water supply										
Raw water	107,281	0.92	110,997	0.91	111,936	1.00	56,269	1.00	54,640	1.02
Municipal water	115,119	2.34[(2)]	134,118	2.34[(2)]	139,396	2.44[(2)]	67,491	2.44[(2)]	59,939	2.44[(2)]
Tap water	9,734	3.66	10,546	3.92	10,824	4.15	4,928	4.15	4,707	4.24
Total	**232,134**	**1.74**	**255,661**	**1.79**	**262,156**	**1.90**	**128,688**	**1.88**	**119,286**	**1.86**

Notes:

(1) The unit selling price is fixed by the local pricing authorities, and the average unit selling price refers to an amount equals to the total revenue (net of VAT) divided by the total sales volume.

(2) As (a) during the Track Record Period, the majority of our municipal water was sold at the lowest end of the price range fixed by the local pricing authorities; and (b) the total revenue, which is used to calculate the average unit selling price, is net of VAT, the average unit selling prices of municipal water during the Track Record Period were less than the low end of the relevant price ranges.

Our financial performance may be affected by a number of factors, including the level of rainfall. We recorded an increasing trend in the total sales volume of our water for the three years ended 31 December 2018 primarily due to the continuing increase in demand for municipal water by the end-users as a result of (i) continuing economic development in Taizhou as reflected in its growing nominal GDP; (ii) the urbanisation process of Taizhou; and (iii) the local insufficient water supply in the Wenling City and Yuhuan City resulting in ongoing demand for water. The total sales volume of our water significantly increased by 10.2%, or 23.6 million tonnes, from 232.1 million tonnes in 2016 to 255.7 million tonnes in 2017 primarily due to the lower rainfall volume in Taizhou in 2017. According to Taizhou Water Resources Bulletin 2017, the average rainfall volume in Taizhou decreased by 22.1% from 1,765.7 mm in 2016 to 1,376.1 mm in 2017. The lower rainfall volume leads to the decrease in water stored in the reservoirs, which are small to medium in size, of our customers, and therefore increases their demand for water supply from us.

Accordingly, the lower rainfall volume recorded in Taizhou in 2017 drove the increase in our sales volume of raw water by 3.4%, or 3.7 million tonnes, from 107.3 million tonnes in 2016 to 111.0 million tonnes in 2017, and the increase in the sales volume of our municipal water by 16.5%, or 19.0 million tonnes, from 115.1 million tonnes in 2016 to 134.1 million tonnes in 2017. Local water service providers in Wenling City and Yuhuan City may sell raw water at prices lower than those of our Group because some of these water service providers may draw water from small-to-medium size reservoirs situated in their cities and therefore reducing the length of, and costs in maintaining their water supply networks to their customers. We understand that our customers may purchase water from other small water treatment plants and these water treatment plants may draw water from reservoirs of small-to-medium sizes. In a year of plentiful rainfall volume, the small-to-medium size reservoirs are able to supply water to the other small water treatment plants and therefore the water volume purchased by our customers from us may be affected.

The total sales volume of our water decreased by 7.3%, or 9.4 million tonnes, from 128.7 million tonnes for the six months ended 30 June 2018 to 119.3 million tonnes for the six months ended 30 June 2019 primarily due to the higher rainfall volume in Taizhou during the six months ended 30 June 2019. According to the Frost & Sullivan Report, the average rainfall volume in Taizhou increased by 42.3% from 648.8 mm for the six months ended 30 June 2018 to 923.2 mm for the same period of 2019. The higher rainfall volume recorded in Taizhou led to the decrease in our sales volume of raw water by 3.0%, or 1.7 million tonnes, from 56.3 million tonnes to 54.6 million tonnes, and decrease in the sales volume of our municipal water by 11.3%, or 7.6 million tonnes, from 67.5 million tonnes to 59.9 million tonnes during the six months ended 30 June 2019.

The table below sets out the purchase volume and the average unit costs (i.e. the raw water procurement fee and water resources fees) of raw water for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Purchase volume	Average unit costs	Purchase volume	Average unit costs	Purchase volume	Average unit costs	Purchase volume	Average unit costs	Purchase volume	Average unit costs
	('000 tonnes)	*(RMB)*	*('000 tonnes)*	*(RMB)*	*('000 tonnes)*	*(RMB)*	*('000 tonnes)*	*(RMB)*	*('000 tonnes)*	*(RMB)*
Raw water	233,392	0.5	259,475	0.5	264,234	0.6	129,177	0.6	122,290	0.6

For the three years ended 31 December 2018 and the six months ended 30 June 2019, we recorded a volume loss of 0.5%, 1.5%, 0.8% and 2.5%, respectively. For details, please refer to "Business — Our water supply services — Overview" of this prospectus.

The following table sets out the breakdown of our gross profit and gross profit margin of our Continued Operations by product/service categories for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Water supply										
Raw water	22,723	23.0	29,201	28.9	30,262	26.9	14,729	26.2	15,592	28.1
Municipal water	107,308	39.8	140,929	44.9	147,734	43.4	71,481	43.4	66,805	45.7
Tap water	6,518	18.3	12,981	31.4	16,807	37.5	6,796	33.2	7,196	36.0
Installation services	2,658	43.7	1,985	30.8	2,474	35.7	654	34.8	1,148	29.0
Total	**139,207**	**33.9**	**185,096**	**40.0**	**197,277**	**39.1**	**93,660**	**38.5**	**90,741**	**40.2**

Our gross profit was RMB139.2 million, RMB185.1 million, RMB197.3 million and RMB90.7 million for the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, respectively, representing gross profit margin of 33.9%, 40.0%, 39.1% and 40.2% during the corresponding periods. The significant increase in gross profit margin of our raw water and municipal water in 2017 primarily due to the decreased unit cost of our water driven by (i) the increase in sales volume of our raw water and municipal water; and (ii) the decrease in fixed costs, such as depreciation expenses and repair and maintenance fee in 2017. The decrease in depreciation expenses in 2017 was mainly due to that certain water supply facilities and equipment arrived at the end of their estimated useful lives and thus ceased to provide depreciation in 2017. Our gross profit margin of our raw water and municipal water decreased slightly in 2018, primarily attributable to the upward adjustment of unit raw water procurement fee from 1 January 2018, partially offset by (i) the upward adjustment of unit selling price of our raw water and municipal water; and (ii) the decrease in the employee benefit expenses in 2018. The number of our employees in production and

operation departments decreased in 2018 as (i) we started to outsource certain works to a third party in April 2018 in order to optimise staff structure and reduce operation cost; and (ii) some employees in production and operation departments retired or resigned in 2018.

Our gross profit margin of our raw water and municipal water increased slightly for the six months ended 30 June 2019 compared to the six months ended 30 June 2018, primarily attributable to the decrease in the fixed costs in operation including (i) the decrease in depreciation expenses, which mainly due to that certain water supply facilities and equipment arrived at the end of their useful lives during the six months ended 30 June 2019 and thus ceased to provide depreciation; and (ii) the decrease in repair and maintenance fee.

Gross profit margin of our tap water supply increased from 18.3% in 2016 to 31.4% in 2017, primarily due to (i) an increase in the average unit selling price of our tap water by 7.1% because of the upward adjustment of unit selling price of our tap water since 1 July 2017; and (ii) a decrease in the repair and maintenance fees in relation to our tap water supply in 2017. Gross profit margin of our tap water further increased to 37.5% in 2018, primarily attributable to (i) an increase in the average unit selling price of our tap water by 5.9% because of the upward adjustment of unit selling price of our tap water since 1 July 2017; and (ii) a decrease in employee benefit expenses due to the decrease in the number of employee in relation to tap water supply caused by the outsourcing of some works such as meter reading since May 2018.

Gross profit margin of our tap water increased from 33.2% for the six months ended 30 June 2018 to 36.0% for the six months ended 30 June 2019, primarily attributable to an increase in the average unit selling price of our tap water by 2.2% because of the upward adjustment of unit selling price of our tap water since 1 January 2019.

Gross profit margin of our installation services is affected by the scale of installation services. Generally, we experience higher gross profit margin for installation services provided for a whole building than individual households. We recorded a higher gross profit margin for our installation services for the year ended 31 December 2016 primarily due to our undertaking of installation services for a property developer.

The table below sets forth the designed water supply capacity and the actual water supply capacity of raw water and municipal water and utilisation rate for the periods indicated:

	Year ended 31 December									Six months ended 30 June		
	2016			2017			2018			2019		
	Annualised designed water supply capacity	Actual water supply capacity	Utilisation rate	Annualised designed water supply capacity	Actual water supply capacity	Utilisation rate	Annualised designed water supply capacity	Actual water supply capacity	Utilisation rate	Annualised designed water supply capacity	Annualised actual water supply capacity	Annualised utilisation rate
	(tonnes'000)	*(tonnes'000)*	*(%)*	*(tonnes'000)*	*(tonnes'000)*	*(%)*	*(tonnes'000)*	*(tonnes'000)*	*(%)*	*(tonnes'000)*	*(tonnes'000)*	*(%)*
Raw water	131,400	111,352	84.7	131,400	115,836	88.2	131,400	116,692	88.8	131,400	114,390	87.1
Municipal water	133,590	123,132	92.2	133,590	141,825	106.2	133,590	147,199	110.2	133,590	126,086	94.4

Please refer to "Business — Our water supply services" of this prospectus for further details.

DISCONTINUED OPERATIONS

During the Track Record Period, certain of our subsidiaries engaged in the property development and leasing business, the construction of public works and the landscape business. To streamline our structure and focus on our core business of water supply, we, by way of the Demerger and disposal of equity interests, ceased to operate such businesses. For details, please refer to "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital in 2017" and "History and corporate structure — Our corporate development — Disposal of non-core business" of this prospectus.

OUR NEW PROJECTS

The Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) are under construction. The table below sets out a summary of these two new projects:

Project	Commencement date of construction	Expected completion	Current status of construction	Designed raw water supply capacity	Designed municipal water supply capacity	Estimated total investment amount and financing plan	Total costs incurred up to 30 June 2019	Expected payback and breakeven period
Taizhou Water Supply System (Phase III)	February 2018	February 2022	Tender processes for major construction works completed	*Short term:* 330,000 tonnes per day *Long term:* 1,000,000 tonnes per day	*Short term:* 284,000 tonnes per day *Long term:* 884,000 tonnes per day	RMB2,994.8 million – RMB2,837.2 million to be funded by internal resources and third parties borrowings – RMB157.6 million to be funded by the net proceeds for the Global Offering	RMB873.3 million	Payback period: 15 years Breakeven period: 5 years
Taizhou Water Supply System (Phase IV)	November 2018	April 2022	Tender processes for major construction works completed	*Short term:* 150,000 tonnes per day *Long term:* 300,000 tonnes per day	*Short term:* 100,000 tonnes per day *Long term:* 200,000 tonnes per day	RMB1,365.1 million, all to be funded by internal resources, government grants and third parties borrowings	RMB244.3 million	Payback period: 20 years Breakeven period: 7 years

The expected breakeven period of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) is 5 years and 7 years, respectively. Please also refer to "Risk factors — Our new projects involve substantial investment amounts and postponement in the commencement of their operations due to delay in the construction works will adversely affect our financial conditions and high depreciation costs may adversely affect our profit and our growth strategies may not succeed as expected" of this prospectus.

The table below sets out the aggregate annual investment costs to be incurred of our new projects:

	Aggregate investment costs
	(RMB)
Before 30 June 2019	1,117.6 million
Six months ending 31 December 2019	564.0 million
Year ending 31 December 2020	1,395.6 million
Year ending 31 December 2021	1,158.0 million
Year ending 31 December 2022	124.7 million

In December 2016, we obtained the CDB Loan of RMB565.0 million with a term of 25 years, which is a special construction fund granted by China Development Fund Co., Ltd. and to be used for construction of Taizhou Water Supply System (Phase III). The People's Government of Yuhuan City also provided to us a government grant of RMB400.0 million which will be paid to us in eight installments over the construction period of the Taizhou Water Supply System (Phase IV). For details of the CDB Loan, please refer to "Relationship with Taizhou SCOG — Independence from Taizhou SCOG — Financial independence" of this prospectus. For details of the government grant, please refer to "Financial information — Descriptions of selected items of the consolidated statements of financial position — Deferred government grants" of this prospectus.

As of 31 October 2019, being the Latest Practicable Date for purpose of indebtedness statement in this prospectus, we had RMB16,001.0 million of credit facilities made available to us, of which RMB803.5 million were utilised and RMB15,197.5 million were unutilised.

Upon completion of our above new water supply systems, our designed total water supply capacity will be as follows:

	Designed total water supply capacity of existing water supply systems	**Designed total water supply capacity of existing and new water supply systems**			
		Short term	*% of increase*	*Long term*	*% of increase*
Raw water	740,000 tonnes per day[(1)]	1,220,000 tonnes per day[(1)(3)]	64.9%	2,040,000 tonnes per day[(1)]	175.7%
Municipal water	366,000 tonnes per day[(2)]	750,000 tonnes per day[(2)]	104.9%	1,450,000 tonnes per day[(2)]	296.2%
Tap water	20,000 tonnes per day	Subject to negotiation with and approval of government	–	Subject to negotiation with and approval of government	–

Notes:

1. The raw water supply capacity of our existing water supply system is limited by the process capacity of the Huangyan Pumping Station of 250,000 tonnes per day. Accordingly, despite that the designed raw supply capacity of Taizhou Water Supply System (Phase I) is 280,000 tonnes per day, the calculation of the raw water supply capacity of our existing water supply systems is based on 250,000 tonnes per day for Taizhou Water Supply System (Phase I).

2. The municipal water supply capacity refers to the process capacity of Taizhou Water Treatment Plant.

3. The short term raw water supply capacity refers to the water supply capacity after completion of the construction of Zhuxi Reservoir.

Since substantial part of the estimated total investment costs of our new projects are to be financed by internal resources and/or third party borrowings, we expect our gearing ratio will remain high and increase in view of additional potential borrowings. Please also refer to "Risk factors — We have high gearing ratio and high level of bank and other borrowings that may expose us to liquidity risk and our finances costs are subject to changes in interest rates" of this prospectus.

OUR CUSTOMERS

Our customers are mainly local municipal water service providers who, to our knowledge, sell the municipal water purchased from us to other municipal water service providers or end-users. We have established a business relationship with our major customers for more than 11 years. For the three years ended 31 December 2018 and the six months ended 30 June 2019, we generated RMB363.8 million, RMB414.1 million, RMB454.0 million and RMB202.3 million revenue from our five largest customers, accounting for 88.8%, 89.5%, 90.0% and 89.6%, respectively, of our total revenue of our Continued Operations, and we generated RMB123.3 million, RMB129.4 million, RMB136.8 million and RMB63.8 million revenue from our largest customer, accounting for 30.1%, 28.0%, 27.1% and 28.3%, respectively, of our total revenue of our Continued Operations.

Among our customers, Wenling Water Supply, Yuhuan Water Supply, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply are our connected persons under Chapter 14A of the Listing Rules. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our revenue derived from sales to these connected persons amounted to RMB240.6 million, RMB284.8 million, RMB317.1 million and RMB138.4 million, accounting for 58.7%, 61.5%, 62.9% and 61.3%, respectively, of our total revenue of our Continued Operations. Transactions with these connected persons will continue after the Listing. For details, please refer to "Business — Sales to connected persons" and "Connected transactions" of this prospectus.

We face competition from other water supply service providers in Taizhou. According to the Frost & Sullivan Report, there are nine water supply service providers in Taizhou which have been granted the exclusive rights to draw raw water from the Large-to-Medium Size Reservoirs. There are over 50 water treatment plants in Taizhou supplying municipal water, and Taizhou Water Treatment Plant is the largest water treatment plant in terms of municipal water supply volume in 2018. For details of the raw water supply industry in Taizhou, please refer to "Industry overview — Raw water supply industry — Raw water supply in Taizhou" and "Industry overview — Municipal water supply industry — Municipal water supply industry in Taizhou" of this prospectus.

We sell our raw water and municipal water to water service providers at prices fixed by Taizhou DRC, and tap water to end-users at prices approved by the People's Government of Wenling City.

PROCUREMENT AND SUPPLIERS

During the Track Record Period, the principal raw materials and parts and components used for our water supply business were mainly raw water, electricity, construction materials, pipelines, spare parts and components for daily repair and maintenance and chemicals used for water treatment, such as sodium hypochlorite and hydrated lime.

During the Track Record Period, we drew all our raw water from Changtan Reservoir in case that there is a shortage of water supply from Changtan Reservoir, we may have to source water from other reservoirs. Our Directors confirmed that during the Track Record Period, we had not experienced any circumstances that required us to source raw water other than Changtan Reservoir. Our existing and new water supply systems will continue to draw water from Changtan Reservoir. However, in light of our new water supply systems, we have secured additional sources of water supply. Water can be diverted from Niu Tou Shan Reservoir as a contingency arrangement in case of shortage of water supply from Changtan Reservoir. In addition to Changtan Reservoir, the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) can draw water from Zhuxi Reservoir upon completion of its construction.

The designed water storage capacity of Changtan Reservoir is 732.4 million tonnes. According to the Frost & Sullivan Report, the water storage volume of Changtan Reservoir as at the end of 2016, 2017 and 2018 was 385.2 million tonnes, 264.3 million tonnes and 379.3 million tonnes, and the actual volume of water collected by Changtan Reservoir was 614.1 million tonnes, 321.4 million tonnes and 514.4 million tonnes, respectively, in 2016, 2017 and 2018.

For the three years ended 31 December 2018, we drew a volume of 233.4 million tonnes, 259.5 million tonnes and 264.2 million tonnes of raw water from Changtan Reservoir, respectively, representing 99.7%, 110.9% and 112.9% of the limit stated in the Water Intake Permit. According to our PRC Legal Adviser, entities or individuals shall draw water according to the approved annual water intake volume, and failure to comply with the limit may result in penalty by the relevant government authority. As the Taizhou Water Resources Bureau, the competent authority, has confirmed that no penalty would be imposed on us in respect of the water drew exceeds the limit set out in the Water Intake Permit, our Directors and our PRC Legal Adviser are of the view, and the Sole Sponsor concurs with the view that, this did not constitute a material non-compliance nor has any material impact on our Group taken as a whole. For details, please refer to "Business — Our water supply services — Our procurement of raw water" of this prospectus.

As at the Latest Practicable Date, the water diversion network from Niu Tou Shan Reservoir and Zhuxi Reservoir were under construction, and the specific terms (such as purchase limit and pricing) of drawing water from Niu Tou Shan Reservoir and Zhuxi Reservoir had not been fixed by the parties. Our rights to draw water from Niu Tou Shan Reservoir and Zhuxi Reservoir are non-exclusive.

The major production cost for our water supply business is the raw water procurement fee, water resources fee and electricity costs. The raw water procurement fee and water resources fee are fixed by Taizhou DRC. For the three years ended 31 December 2018 and the six months ended 30 June 2019, the unit raw water procurement fee of Changtan Reservoir was RMB0.22/tonne, RMB0.22/tonne, RMB0.32/tonne and RMB0.32/tonne, respectively, and the unit water resources fee remained at RMB0.2/tonne during the Track Record Period. The raw water procurement fee accounted for 23.4%, 24.4%, 31.7% and 32.6% of our total cost of sales, the water resources fee accounted for 17.2%, 18.5%, 17.2% and 18.1% of our total cost of sales and the electricity cost accounted for 9.7%, 10.5%, 9.8% and 9.4% of our total cost of sales, respectively, for the three years ended 31 December 2018 and the six months ended 30 June 2019.

During the Track Record Period, all our suppliers were located in the PRC. We selected construction-related suppliers through public tenders. For non-construction related suppliers, we have maintained a list of qualified suppliers. Subject to the quantity of materials to be purchased, we may source our non-construction related materials through public tenders.

For the three years ended 31 December 2018 and the six months ended 30 June 2019, our purchases from our five largest suppliers (excluding suppliers of the Discontinued Operations and contractors), accounted for 96.5%, 96.5%, 98.3% and 99.0%, respectively, of our total purchase amount of our Continued Operations, and our purchase from Changtan Reservoir Affairs Centre, our largest supplier (excluding suppliers of the Discontinued Operations and contractors) accounted for 73.8%, 73.7%, 78.9% and 81.4%, respectively, of our total purchase amount of our Continued Operations. None of our Directors, respective close associates of our Directors or any Shareholders who, to the knowledge of our Directors, owned more than 5% of shareholding interest in our Company as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period. For details, please refer to "Business — Procurement and suppliers" of this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that we will continue to maintain our industry leading position in Taizhou by virtue of the competitive strengths: (i) we have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity; (ii) we are a leading water supply service provider supplying raw water and municipal water and possess strong track record in the water supply industry in Taizhou; (iii) we are in an industry of high entry barrier and face relatively low competition, and with our established track record in the industry, we are well-positioned to compete with our competitors; (iv) we are able to benefit from the accelerated pace of urbanisation in the PRC and favourable government policies; and (v) experienced and stable management team with rich management experience and in-depth industry knowledge.

Please refer to "Business — Our competitive strengths" of this prospectus for further details.

OUR BUSINESS STRATEGIES

We aim to strengthen our market position as a leading raw and municipal water supply service provider in Taizhou by pursuing these business strategies: (i) continue to expand and develop our business through the extension of the water supply networks and geographic coverage in Taizhou; (ii) to further enhance and expand our business to downstream; and (iii) to continue consolidating our leading position in Taizhou through business expansion and providing quality services.

Please refer to "Business — Our business strategies" of this prospectus for further details.

SUMMARY OF FINANCIAL INFORMATION

The following tables summarise the consolidated financial information of our Group during the Track Record Period, which is extracted from the Accountants' Report in Appendix I to this prospectus. The summary financial data should be read in conjunction with the consolidated financial information set out in the Accountants' Report in Appendix I to this prospectus.

Summary of consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CONTINUED OPERATIONS					
REVENUE	410,053	462,901	504,263	243,288	225,786
Cost of sales	(270,846)	(277,805)	(306,986)	(149,628)	(135,045)
Gross profit	139,207	185,096	197,277	93,660	90,741
Other income and gains	17,174	21,274	27,370	18,748	7,889
Administrative expenses	(30,235)	(34,979)	(34,672)	(17,930)	(19,121)
Other expenses	(588)	(548)	(2,560)	(2,159)	(427)
Finance costs	(38,258)	(32,484)	(26,628)	(16,696)	(8,719)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS	87,300	138,359	160,787	75,623	70,363
Income tax expense	(25,270)	(36,690)	(40,537)	(19,034)	(18,474)
PROFIT FOR THE YEAR FROM CONTINUED OPERATIONS	62,030	101,669	120,250	56,589	51,889
DISCONTINUED OPERATIONS					
Profit for the year from Discontinued Operations	42,457	123,747	3,248	(829)	–
PROFIT FOR THE YEAR AND OTHER COMPREHENSIVE INCOME FOR THE YEAR	104,487	225,416	123,498	55,760	51,889
Profit attributable to:					
Owners of the parent	82,461	179,997	110,450	49,447	46,340
Non-controlling interests	22,026	45,419	13,048	6,313	5,549
	104,487	225,416	123,498	55,760	51,889

Summary of consolidated statements of financial position

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	2,090,320	990,756	461,660	468,391
Current liabilities	1,213,543	667,337	290,956	260,682
Net current assets	876,777	323,419	170,704	207,709

Our net current assets decreased by RMB553.4 million, or 63.1%, from RMB876.8 million as of 31 December 2016 to RMB323.4 million as of 31 December 2017, primarily due to the decreases in properties under development and completed properties held for sale because of the Demerger in 2017 as Zhejiang Mingji had significant balance of properties as of 31 December 2016. Our net current assets further decreased by RMB152.7 million, or 47.2%, from RMB323.4 million as of 31 December 2017 to RMB170.7 million as of 31 December 2018, primarily due to a decrease in cash and cash equivalents of RMB171.4 million, mainly reflecting the payments we made for the constructions of our new projects in 2018, and our construction in progress, which is recognised as non-current asset, increased accordingly during the same year. Our net current assets then increased by RMB37.0 million, or 21.7%, from RMB170.7 million as of 31 December 2018 to RMB207.7 million as of 30 June 2019, mainly because we obtained more long term bank loans, which is recognised as non-current liabilities, to fund the constructions of our new projects during the six months ended 30 June 2019, and repaid all short term borrowings during the same period. Our net current assets decreased by RMB95.2 million, or 45.8%, from RMB207.7 million as of 30 June 2019 to RMB112.5 million as of 31 October 2019 mainly because of the substantial payment for the constructions of our new projects during the four months ended 31 October 2019.

Please refer to "Financial information — Description of selected items of the consolidated statements of financial position — Net current assets" of this prospectus for further details.

Other key financial ratios

Continued Operations

The table below sets out certain key financial ratios of our Continued Operations during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
Return on assets	2.9%	4.8%	6.2%	4.4%
Return on equity	14.0%	20.9%	18.6%	14.9%
Interest coverage ratio	3.3	5.3	7.0	9.1
Interest coverage ratio (including capitalised interest expenses)	3.3	3.6	4.4	3.3

	As of 31 December			As of 30 June
	2016	2017	2018	2019
Current ratio	3.1	1.5	1.6	1.8
Quick ratio	3.1	1.5	1.6	1.8
Gearing ratio *(note)*	333.1%	270.6%	155.7%	186.4%
Net debt-to-equity ratio	167.0%	174.0%	107.0%	137.6%

Note: Gearing ratio equals to total debts divided by total equity as of the year/period end. Total debts include interest-bearing bank and other borrowings.

During the Track Record Period, we recorded a high gearing ratio primarily attributable to (i) the CDB Loan of RMB565.0 million obtained in December 2016 with a term of 25 years, which is a special construction fund granted by China Development Fund Co., Ltd. and to be used by Binhai Water for construction of Taizhou Water Supply System (Phase III); (ii) the entrusted loans of RMB320.7 million we obtained in the second half of 2015, which was fully repaid in April 2018; and (iii) other borrowings we obtained for our water supply projects. Our gearing ratio will remain at high level due to further financing for the construction of our new projects.

RECENT DEVELOPMENTS

Our Directors observed and noted that the market in which our Group operates remained stable after 30 June 2019. For the five months ended 30 November 2019, our revenue decreased by 6.1% as compared to the same period in 2018 primarily due to the higher average rainfall volume in Taizhou than that in the same period in 2018. According to the Frost & Sullivan Report, the average rainfall volume in Taizhou increased by 42.3% from 648.8 mm for the six months ended 30 June 2018 to 923.2 mm for the same period in 2019. Due to the reasons primarily including (i) a lower revenue mainly attributable to the anticipated higher average rainfall volume in Taizhou for the year ending 31 December 2019 than that in 2018; (ii) a decrease in other income and gains mainly as a result of the repayment of loans by related parties in 2018; and (iii) an increase in administrative expenses, we expect our revenue and profit for the year ending 31 December 2019 to be lower than those in 2018.

With respect to the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we have completed the tender processes for major construction works. The total investment cost of the Taizhou Water Supply System (Phase III) is RMB2,994.8 million, and for the period from 1 July 2019 to 30 November 2019, the total costs incurred in respect of the Taizhou Water Supply System (Phase III) amounted to approximately RMB257.9 million. Apart from RMB157.6 million of the total investment cost will be funded by the proceeds from the Global Offering, the remaining costs will be financed by internal resources and/or third party borrowings.

The total investment cost of the Taizhou Water Supply System (Phase IV) is RMB1,365.1 million, and for the period from 1 July 2019 to 30 November 2019, the total costs incurred in respect of the Taizhou Water Supply System (Phase IV) amounted to approximately RMB63.5 million. The remaining costs will be funded by internal resources, government grants and third party borrowings.

Our Directors have confirmed that subsequent to 30 June 2019 and up to the date of this prospectus, there had been no material adverse change in our financial position, prospects, gross profit margin or revenue and there has been no event since 30 June 2019 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

MAJOR RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We believe the more significant risks relating to our business are as follows:

- the raw water procurement fee and the water resources fee we pay to the local government authorities for water drawn from Changtan Reservoir and the unit price of water we sell to our customers is fixed by the local pricing authorities and subject to change beyond our control;

- our financial conditions may be affected by the unit selling price of our water fixed by the local pricing authorities in relation to our new water supply systems;

- our new projects involve substantial investment amounts and postponement in the commencement of their operations due to delay in the construction works will adversely affect our financial conditions and high depreciation costs may adversely affect our profit and our growth strategies may not succeed as expected;

- the terms and conditions of the water we draw from Niu Tou Shan Reservoir and Zhuxi Reservoir are subject to further negotiation and determination of the parties;

- the actual supply volume of raw water and municipal water is subject to factors beyond our control, and the sales volume of our water is subject to water storage in reservoirs, restrictions of the downstream water supply capacity and climate factors;

- we generated all our revenue from our business operations in Taizhou during the Track Record Period; and

- we expose to risks associated with changes in regulations and policies for water supply services in the PRC, renewal of the relevant licences/permits required for our operations and the water volume we can draw fixed by the local government.

OUR SHAREHOLDERS

As at the Latest Practicable Date, Taizhou Urban Construction directly held 28.83% shareholding interest in our Company. Immediately following the completion of the Global Offering, Taizhou Urban Construction will hold 21.63% shareholding interest (assuming the Over-allotment Option is not exercised), or 20.84% shareholding interest (assuming the Over-allotment Option is fully exercised), in our Company.

As of the Latest Practicable Date, Taizhou SCOG directly held 80% equity interest of Taizhou Urban Construction, and indirectly held the remaining 20% equity interest of Taizhou Urban Construction through its wholly-owned subsidiary, Taizhou Financial Investment. Accordingly, Taizhou SCOG was deemed to be interested in the Shares held by Taizhou Urban Construction and therefore, together with Taizhou Financial Investment and Taizhou Urban Construction, constitute our single largest group of Shareholders upon Listing.

PREVIOUS LISTING APPLICATION ATTEMPTS

We applied for the listing of our shares on the Shanghai Stock Exchange in 2004 which was not approved by CSRC. We also considered to apply for the listing of our shares on the Shanghai Stock Exchange in 2018 which was not proceeded. For details of our previous listing application attempts, please refer to "History and corporate structure — Previous A-share listing application attempts" of this prospectus.

We have entered into continuing connected transactions with certain connected persons, which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. We have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from the strict compliance with the requirements under Chapter 14A of the Listing Rules. For details, please refer to "Connected transactions" of this prospectus.

DIVIDEND AND DIVIDEND POLICY

During the three years ended 31 December 2018 and the six months ended 30 June 2019, we did not declare nor distribute any dividend.

In order to return capital to our Shareholders in line with our growth, we have adopted in our general dividend policy a dividend payout ratio of no less than 30% of our annual distributable net profit as determined under PRC GAAP or HKFRSs (whichever is lower) for each of the three financial years after Listing (the "**Initial Period**"). After the Initial Period, pursuant to such general dividend policy, we will determine the dividend payout ratio with reference to our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or HKFRSs (whichever is lower) and other factors that our Directors may consider relevant. We may declare and pay dividends by way of cash or by other means that we consider appropriate. Distribution of dividends will be decided by our Board at their discretion and will be subject to Shareholders' approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law and any other applicable law and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocation to the statutory common reserve fund an amount of no less than 10% of our profit after tax, as determined under PRC GAAP, provided that when the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this statutory common reserve fund will be required; and
- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

In accordance with our Articles of Association, any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years. There is, however, no assurance that we will be able to declare dividends of such an amount or any amount each year or in any year.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

As of the Latest Practicable Date, we were not 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 our results of operations or financial condition. During the Track Record Period and up the Latest Practicable Date, our operation was in compliance with the applicable laws and regulations in all material respects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are subject to various PRC environmental laws and regulations. Our Group is subject to certain environmental risks. At the construction of the project, we may be subject to environmental risks of water pollution, air pollution, noise pollution, and also land run-off and overall ecological impacts. Our daily operations may also generate solid waste such as sludge from the process of sedimentation and filtration. We believe that it is crucial to comply with the relevant environmental laws and regulations for our long-term development and success. We have been pursuing a sustainable approach to the environment, as well as proper consideration of our social and economic responsibilities to the wider community. For details, please refer to "Business — Environmental, social and governance" of this prospectus.

LISTING EXPENSES AND MATERIAL ADVERSE CHANGE

Listing expenses represent professional fees and underwriting commission incurred in connection with the Global Offering and the Listing. The Listing only involves the issuance of our new H Shares and the existing Domestic Shares will currently not be listed or traded on the Stock Exchange. Under the relevant accounting standards, incremental costs directly attributable to the new issuance of our H Shares (such as underwriting fee and professional fees paid to professional parties) are deducted from equity, and costs relating solely to listing or other activities undertaken at the same time as the share issue which are not directly attributable to the issuance of our H Shares (such as public relations consultant's fee and road show costs) should be recognised as expense.

Assuming an Offer Price of HK$4.61 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be HK$35.2 million, of which (i) HK$0.2 million had been charged to our profit or loss for the six months ended 30 June 2019; (ii) HK$34.1 million will be deducted from equity upon listing and (iii) HK$0.9 million is expected to be charged to our profit or loss for the six months ending 31 December 2019. The actual amounts to be recognised to the profit and loss of our Group or to be capitalised are subject to adjustments based on audit and changes in variables and assumptions.

The listing expenses stated above are the current estimation for reference purposes and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Accordingly, prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 may be materially and adversely affected by the listing expenses mentioned above.

GLOBAL OFFERING STATISTICS

The statistics in the following table are based on the assumption that the Global Offering is completed and 50,000,000 H Shares are issued in the Global Offering and the Over-allotment Option is not exercised.

	Based on an Offer Price of HK$4.21 per Share	Based on an Offer Price of HK$5.01 per Share
Market capitalisation of our Shares *('million)*[(1)]	842.0	1,002.0
Unaudited pro forma adjusted net tangible assets of our Company attributable to owners of our Company per Share [(2)]	4.04	4.23

(1) The calculation of market capitalisation is based on 200,000,000 Shares expected to be in issue immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised.

(2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making adjustments referred to in "Appendix II — Unaudited pro forma financial information" of this prospectus.

USE OF PROCEEDS

We estimate that the net proceeds to be received by us from the Global Offering, after deducting the underwriting commission and related expenses payable by the Company in the aggregate amount of HK$35.2 million, will be HK$195.3 million (assuming an Offer Price of HK$4.61 per Offer Share, being the mid-point of the indicative Offer Price range and that the Over-allotment Option is not exercised). We intend to apply such net proceeds from the Global Offering Share Offer as follows: 90.0%, or HK$175.8 million will be used to finance the Taizhou Water Supply System (Phase III); and 10.0%, or HK$19.5 million, will be used for our working capital and general corporate purposes. Please refer to "Future plans and use of proceeds" of this prospectus for further details.

In this prospectus, unless the context otherwise requires, the following expressions shall have the meanings set out below.

"Announcement 39"	the Announcement on Relevant Policies for Deepening Value-added Tax Reform (MOF, SAT and General Administration of Customs [2019] No. 39) (《財政部、國家税務總局、海關總署關於深化增值税改革有關政策的公告》) (財政部國家税務總局海關總署公告2019年第39號) promulgated by the MOF, the SAT and the General Administration of Customs in March 2019, which became effective on 1 April 2019
"Announcement 67"	the Announcement on Continuing to Implement the Favourable Tax Policies for Rural Drinking Water Safety Projects (MOF and SAT [2019] No. 67) (《關於繼續實行農村飲水安全工程税收優惠政策的公告》(財政部税務總局公告2019年第67號)) issued by the MOF and the SAT on 15 April 2019, which was implemented from 1 January 2019
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or where the context so requires, any of them that are used in connection with the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of our Company conditionally adopted on 5 June 2019 and amended on 8 November 2019, which will take effect upon Listing, as amended from time to time, a summary of which is contained in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Binhai Water"	Taizhou Binhai Water Co., Ltd.* (台州市濱海水務有限公司), a limited liability company established in the PRC on 7 June 2016 and a subsidiary of our Company owned as to 51% by our Company and 49% by Taizhou City Water, our subsidiary
"Board" or "Board of Directors"	the board of Directors
"Business Day(s)"	any day(s) (other than Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business

"CAGR"	compound annual growth rate
"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
"CDB Loan"	an entrusted loan of up to RMB565 million for a term of 25 years granted by China Development Fund Co., Ltd.* (國開發展基金有限公司) as lender, through China Development Bank to our Company, as borrower, details of which are set out in "Relationship with Taizhou SCOG — Independence from Taizhou SCOG — Financial independence" in this prospectus
"Chairman"	Chairman of the Board
"Changtan Reservoir"	Changtan Reservoir (長潭水庫), the largest reservoir in Taizhou in terms of storage capacity according to the Frost & Sullivan Report, further details of which are set out in "Business — Our competitive strengths — We have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity" of this prospectus
"Changtan Reservoir Affairs Centre"	Taizhou Huangyan District Changtan Reservoir Affairs Centre* (台州市黃岩區長潭水庫事務中心) (formerly Taizhou Huangyan District Changtan Reservoir Administration Bureau* (台州市黃岩區長潭水庫管理局)), a public institution under the People's Government of Huangyan District responsible for the administration of Changtan Reservoir
"China" or "PRC"	the People's Republic of China which, for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau Special Administrative Region and Taiwan

"Circular 32"	the Circular on Adjusting Value-added Tax Rates (Caishui [2018] No. 32) (《財政部、税務總局關於調整增值税税率的通知》) (財税[2018]32號) published by MOF and SAT in April 2018, which became effective on 1 May 2018
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司), a joint stock company established in the PRC with limited liability on 30 June 1999
"Company Law" or "PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法), as promulgated by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Continued Operations"	the operations of our Group excluding the Discontinued Operations
"CSDCC"	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulated body responsible for the supervision and regulation of the PRC securities market
"Deed of Indemnity"	the deed of indemnity dated 8 November 2019 entered into by Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction with and in favour of our Company, further information on which is set forth in "F. Other information — 1. Indemnities" in Appendix VI to this prospectus
"Demerger"	the Mingji Demerger and the Hotel Demerger

"Development Plan"	the development plan of Taizhou pursuant to the Industry Development Plan of Taizhou Bay (台州灣區產業發展規劃) issued by Taizhou DRC and the Policy Research Division of Taizhou Municipal Committee of the Communist Party of China in May 2019, further details of which are set out in "Business — Our business strategies — Continue to expand and develop our business through the extension of the water supply networks and geographic coverage in Taizhou" of this prospectus
"Director(s)"	the director(s) of our Company
"Discontinued Operations"	property development and leasing business, the construction of public works and the landscape business we ceased operated during the Track Record Period by way of the Demerger and the Disposal, details of which are set out in "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital in 2017" and "History and corporate structure — Our corporate development — Disposal of non-core business" in this prospectus
"Disposal"	the disposals of 100% equity interests in Taizhou Modern Construction and Zhejiang Taizhou Landscape, which were completed on 15 November 2018, details of which are set out in "History and corporate structure — Our corporate development — Disposal of non-core business" in this prospectus
"Domestic Shares"	ordinary shares issued by us, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi and currently not listed or traded on any stock exchange
"DRC"	Development and Reform Commission (發展和改革委員會)
"EIT"	the PRC enterprise income tax
"EIT Law"	Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得税法) as amended, supplemented or otherwise modified from time to time
"electronic application instruction(s)"	Instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for our Hong Kong Offer Shares

"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"Founders"	the entities which together established our Company in June 1999 pursuant to the Founders Agreement, namely, Taizhou Urban Construction, Zhejiang Huangyan Financial Development, Taizhou Jiaojiang Infrastructure, Zhejiang Taixin, Zhejiang Zhijiang, Taizhou Luqiao Financial Development and Taizhou Hydropower
"Founders Agreement"	a founders agreement dated 9 December 1998 (as supplemented by a supplemental founders agreement dated 20 January 1999) regarding the establishment of our Company by and among the Founders
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
"Frost & Sullivan Report"	the report commissioned by us and independently prepared by Frost & Sullivan on the "China and Zhejiang municipal water and raw water supplies market analysis", a summary of which is set forth in "Industry overview" in this prospectus
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, designated by our Company
"Group", "our Group", "we", "us" or "our"	our Company (including the predecessor Company) and our subsidiaries, or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, our Company's current subsidiaries or the business operated by such subsidiaries or their predecessors (as the case may be)
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas listed foreign shares with a nominal value of RMB1.00 each, in the ordinary share capital of the Company, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing, and permission to deal, on the Stock Exchange

"HK$", "HKD", or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations promulgated by the Hong Kong Accounting Standards Board
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 5,000,000 H Shares being initially offered by our Company pursuant to the Hong Kong Public Offering, subject to reallocation as described in "Structure and conditions of the Global Offering" in this prospectus
"Hong Kong Public Offering"	the conditional offering of our Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong and upon the terms and conditions stated herein and in the Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the Hong Kong underwriting agreement dated 16 December 2019 relating to the Hong Kong Public Offering entered into among, inter alia, our Company, Taizhou Urban Construction, Taizhou SCOG, Taizhou Financial Investment, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, further information on which is set forth in "Underwriting — Hong Kong Underwriting Agreement" in this prospectus
"Hotel Demerger"	the demerger of Water Supply Hotel which was completed on 14 September 2017 and the related assets and liabilities of Water Supply Hotel were derecognised from our Group, details of which are set out in "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital 2017" in this prospectus
"Huangyan Finance Bureau"	the Finance Bureau of Huangyan District of Taizhou* (台州市黃岩區財政局)

"Huangyan SAOG"	Taizhou Huangyan State-owned Assets Operation Group Co., Ltd.* (台州市黃岩區國有資產經營集團有限公司), a wholly state-owned enterprise with limited liability established in the PRC on 2 November 2011 which held the entire equity interest of Zhejiang Huangyan Financial Development as of the Latest Practicable Date
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which, to the best knowledge and information of our Directors and having made all reasonable enquiries, is/are independent of and not considered as connected person(s) of our Company under the Listing Rules
"Innovax Securities", "Sole Global Coordinator" or "Stabilising Manager"	Innovax Securities Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined in the SFO
"International Offer Shares"	the 45,000,000 H Shares being initially offered for subscription under the International Offering together with any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as set forth in "Structure and conditions of the Global Offering" in this prospectus
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in "Structure and conditions of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering which is expected to be entered into among, inter alia, our Company, Taizhou Urban Construction, Taizhou SCOG, Taizhou Financial Investment, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters on or around the Price Determination Date
"Jiaojiang Finance Bureau"	the Finance Bureau of Jiaojiang District* (椒江區財政局)

"Joint Bookrunners and Joint Lead Managers"	collectively, Innovax Securities Limited and China Everbright Securities (HK) Limited
"Large-to-Medium Size Reservoirs"	the reservoirs referred to in "Industry overview — Raw water supply industry — Raw water supply in Taizhou" of this prospectus
"Latest Practicable Date"	7 December 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Lipin Enterprise"	Shanghai Lipin Enterprise (Group) Co., Ltd.* (上海力品企業(集團)有限公司) (formerly known as Shanghai Yinhong Investment Co., Ltd.* (上海銀泓投資有限公司)), a limited liability company established in the PRC on 8 December 2006 which held the entire equity interest of Lipin Sanmin as of the Latest Practicable Date
"Lipin Sanmin"	Shanghai Lipin Sanmin Culture Communication Co., Ltd.* (上海力品三民文化傳播有限公司), a limited liability company established in the PRC on 2 December 2009 which directly held 6.705% shareholding interest in our Company as of the Latest Practicable Date
"Listing"	the listing of our H Shares on the Main Board
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	31 December 2019, being the date on which dealings in our H Shares on the Stock Exchange are expected to commence
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Luqiao SAAC"	the State-owned Assets Administration Commission of Luqiao District* (路橋區國有資產管理委員會)
"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes GEM

"Mandatory Provisions"	Mandatory Provisions for Companies Listing Overseas (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were issued by the former State Council Securities Policy Committee (原國務院證券委員會) and the former State Commission for Restructuring the Economic System (原國家經濟體制改革委員會) on 27 August 1994
"Mingji Demerger"	the demerger of Zhejiang Mingji which was completed on 11 October 2017 and the related assets and liabilities of Zhejiang Mingji were derecognised from our Group, details of which are set out in "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital 2017" in this prospectus
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOHURD"	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"New York Convention"	the Convention on the Recognition and Enforcement of Foreign Arbitral Awards
"Nomination Committee"	the nomination committee of our Board
"Notice 1"	the Notice on Pricing Approval on Tap Water Price Adjustments of Wenling Zeguo Water Supply (Wen Fu Jia [2017] No. 1) (溫嶺市人民政府價格審批通知書《關於調整溫嶺市澤國自來水有限公司水價的通知》(溫府價[2017]1號)) issued by the People's Government of Wenling City to Wenling Zeguo Water Supply, which came into effect on 1 July 2017
"Notice 4"	the Notice on Adjustments of Water Price Policy of Wenling City (Wen Fu Jia [2018] No. 4) (《關於調整溫嶺市水價等有關事項的通知》(溫府價[2018]4號)) issued by the People's Government of Wenling City on 20 November 2018

"Notice 5"	the Notice on Pricing Approval on Tap Water Prices in Zeguo Town (Wen Fu Jia [2010] No. 5) (溫嶺市人民政府價格審批通知書《關於澤國鎮自來水價格的批覆》(溫府價[2010]5號)) issued by the People's Government of Wenling City to Wenling Zeguo Water Supply in April 2010
"Notice 71"	the Notice on launching the Pilot Program of conversion of Business Tax to VAT Reform with respect to the Transportation Sector and Modern Services Sector in eight provinces and cities including Beijing (Cai Shui [2012] No.71) (《關於在北京等8省市開展交通運輸業和部分現代服務業營業税改徵增值税試點的通知》(財税[2012]71號)) issued by the Ministry of Finance and the State Taxation Administration in July 2012
"Notice 210"	the Notice of Adjustments of the Standard Price for Water Resources (Tai Fa Fai Jia Ge [2015] No. 210) (關於調整水資源費徵收標準的通知(台發改價格[2015]210號)) issued by Taizhou DRC in November 2015, which came into effect on 1 January 2016
"Notice 228"	the Notice on Adjustments on the Price of Changtan Reservoir Raw Water (Tai Fa Gai Jia Ge [2017] No. 228) (關於調整長潭水庫原水價格的通知(台發改價格[2017] 228號)) issued by Taizhou DRC in November 2017, which came into effect from 1 January 2018
"Notice 261"	Notice on Change of the Paying Entity of Water Resources Fee (No. 261 Tai Fa Gai Jia Ge [2017]) (關於調整水資源費繳納主體的通知(台發改價格[2017] 261號)) issued by Taizhou DRC on 22 December 2017
"NPC"	the National People's Congress of the PRC (中華人民共和國人民代表大會)
"Offer Price"	the final price per each Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of no more than HK$5.01 and expected to be not less than HK$4.21, at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in "Structure and conditions of the Global Offering — Pricing and allocation" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option

"Over-allotment Option"	the option granted by us to the International Underwriters exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) pursuant to which our Company may be required to allot and issue up to 7,500,000 H Shares at the Offer Price (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocation in the International Offering, the details of which are described in "Underwriting" in this prospectus
"PBOC"	The People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	generally acceptable accounting principles in the PRC
"PRC Government Body"	has the meaning ascribed thereto under the Listing Rules
"PRC Legal Adviser"	Jingtian & Gongcheng
"Predecessor Company"	Taizhou Water Supply Co., Ltd.* (台州市供水有限公司) (formerly known as Taizhou Huangjiaowen Joint Water Supply Co., Ltd.* (台州黃椒溫聯合供水有限公司)), a limited liability company established in the PRC on 5 May 1993 and the predecessor of our Company
"Price Determination Agreement"	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or about the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date expected to be on or about 20 December 2019 but no later than 23 December 2019, on which the Offer Price is to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) for the purpose of the Global Offering
"Qufeng Holdings"	Qufeng Holdings Limited* (渠豐控股有限公司) (formerly known as Zhejiang Qufeng Investment Co., Ltd.* (浙江渠豐投資有限公司)), a limited liability company established in the PRC on 19 August 2010 which directly held 6.705% shareholding interest in our Company as of the Latest Practicable Date
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC

"Rules of CCASS"	the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (國家税務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) of our Company with a nominal value of RMB1.00 each, comprising the Domestic Shares and the H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Sinolink Securities" or "Sole Sponsor"	Sinolink Securities (Hong Kong) Company Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined in the SFO
"South Area of Taizhou"	an area in the south of Taizhou that includes three districts (Jiaojiang District, Huangyan District and Luqiao District) and two cities (Wenling City and Yuhuan City)
"South Bay Zone (南部灣區)"	the new economic zone in the southern part of Taizhou established pursuant to the Development Plan, further details of which are set out in "Business — Our business strategies — Continue to expand and develop our business through the extension of the water supply networks and geographic coverage in Taizhou" in this prospectus
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), issued on 4 August 1994 and effective on 25 December 1995

"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of our Board
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	member(s) of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of our Company
"Taizhou"	Taizhou City, a prefecture-level city in the coastal area of Zhejiang Province, the PRC
"Taizhou Bay Economic Zone (台州灣循環經濟產業集聚區)"	the new economic zone in the eastern coast of Taizhou established pursuant to the Development Plan, further details of which are set out in "Business — Our business strategies — Continue to expand and develop our business through the extension of the water supply networks and geographic coverage in Taizhou" in this prospectus
"Taizhou City Water"	Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a limited liability company established in the PRC on 30 September 2003 which is owned as to 82% by our Company and 18% by Wenling Water Supply
"Taizhou Development"	Taizhou Development Investment Co., Ltd.* (台州市發展投資有限公司), a limited liability company established in the PRC on 28 August 2017
"Taizhou DRC"	Taizhou Development and Reform Commission (台州市發展和改革委員會)
"Taizhou Environmental Development"	Taizhou Environmental Development Co., Ltd.* (台州市環境發展有限公司), a limited liability company established in the PRC on 5 September 2018 and a wholly-owned subsidiary of our Company
"Taizhou Financial Investment"	Taizhou Financial Investment Group Co., Ltd.* (台州市金融投資集團有限公司) (formerly known as Taizhou Financial Investment Co., Ltd.* (台州市金融投資有限責任公司)), a wholly state-owned enterprise with limited liability established in the PRC on 16 July 2014 which held 20% equity interest of Taizhou Urban Construction as of the Latest Practicable Date

"Taizhou Hydropower"	Taizhou Hydropower Development Co., Ltd.* (台州市水電開發有限公司), a limited liability company established in the PRC on 20 January 1999 and one of our Founders. Taizhou Hydropower did not have any shareholding interest in our Company as of the Latest Practicable Date
"Taizhou Jiaojiang Infrastructure"	Taizhou Jiaojiang Infrastructure Investment Company* (台州市椒江區基礎設施投資公司), a wholly state-owned enterprise with limited liability established in the PRC on 12 March 1996 which directly held 14.82% shareholding interest in our Company as of the Latest Practicable Date
"Taizhou Luqiao Financial Development"	Taizhou Luqiao Financial Development Company* (台州市路橋區財務開發公司), a wholly state-owned enterprise with limited liability established in the PRC on 10 March 1996 and one of our Founders. Taizhou Luqiao Financial Development did not have any shareholding interest in our Company as of the Latest Practicable Date
"Taizhou Luqiao Public Assets"	Taizhou Luqiao Public Assets Investment Management Co., Ltd.* (台州市路橋公共資產投資管理有限公司), (formerly known as Taizhou Luqiao District Infrastructure Construction Investment Co., Ltd.* (台州市路橋區基建設施建設投資有限公司)), a wholly state-owned enterprise with limited liability established in the PRC on 29 June 1998 which directly held 11.74% shareholding interest in our Company as of the Latest Practicable Date
"Taizhou Luqiao Water Supply"	Taizhou Luqiao Water Supply Co., Ltd. * (台州市路橋自來水有限公司), a limited liability company established in the PRC on 7 March 2000 which is wholly-owned by Taizhou Luqiao Public Assets and is a connected person of our Company by virtue of being a subsidiary of Taizhou Luqiao Public Assets, a substantial shareholder of our Company
"Taizhou Modern Construction"	Taizhou Modern Construction and Engineering Co., Ltd.* (台州市現代工程建設有限公司), a limited liability company established in the PRC on 5 September 2000 and was wholly-owned by our Company until 14 November 2018
"Taizhou SAIG"	Taizhou State-owned Assets Investment Group Co., Ltd.* (台州市國有資產投資集團有限公司), a wholly state-owned enterprise with limited liability established in the PRC on 9 March 2000 which held 40% equity interest of Zhejiang Taixin as of the Latest Practicable Date

"Taizhou SASAC"	the State-owned Assets Supervision and Administration Commission of Taizhou* (台州市人民政府國有資產監督管理委員會), a PRC Government Body
"Taizhou SCOG"	Taizhou State-owned Capital Operation Group Co., Ltd.* (台州市國有資本運營集團有限公司), a wholly state-owned enterprise with limited liability established in the PRC on 23 January 2008 which held 80% equity interest of Taizhou Urban Construction as of the Latest Practicable Date. Taizhou SCOG is a substantial shareholder of our Company
"Taizhou South Bay Water Supply"	Taizhou South Bay Water Supply Co., Ltd.* (台州市南部灣區水務有限公司), a limited liability company established in the PRC on 13 March 2018 and a subsidiary of our Company which is owned as to 60% by our Company and 40% by Yuhuan Water Supply
"Taizhou Urban Construction"	Taizhou Urban Construction Investment Development Group Co., Ltd.* (台州市城市建設投資發展集團有限公司) (formerly known as Taizhou Infrastructure Construction Investment Group Co., Ltd.* (台州市基礎設施建設投資集團有限公司) and Taizhou Infrastructure Construction Investment Co., Ltd.* (台州市基礎設施建設投資有限公司)), a wholly state-owned enterprise with limited liability established in the PRC on 13 November 1998 which directly held 28.83% shareholding interest in our Company as of the Latest Practicable Date. Taizhou Urban Construction is a substantial shareholder of our Company
"Taizhou Water Supply System (Phase I)"	the water supply system in Taizhou (project name: Huang-Jiao-Wen Joint Water Supply Project (黃椒溫聯合供水工程)), details of which are set out in "Business — Our water supply systems — Taizhou Water Supply System (Phase I)" in this prospectus
"Taizhou Water Supply System (Phase II)"	the water supply system in Taizhou (project name: Taizhou Second Phase Water Supply Project (台州二期供水工程)), details of which are set out in "Business — Our water supply systems — Taizhou Water Supply System (Phase II)" in this prospectus
"Taizhou Water Supply System (Phase III)"	the water supply system in Taizhou (project name: Taizhou Water Diversion Project (台州市引水工程)), details of which are set out in "Business — Our water supply systems — Taizhou Water Supply System (Phase III)" in this prospectus

"Taizhou Water Supply System (Phase IV)"	the water supply system in Taizhou (project name: Taizhou South Bay Water Diversion Project (台州市南部灣區引水工程)), details of which are set out in "Business — Our water supply systems — Taizhou Water Supply System (Phase IV)" in this prospectus
"Taizhou Water Treatment Plant"	the water treatment plant owned and operated by Taizhou City Water
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the period comprising three years ended 31 December 2018 and six months ended 30 June 2019
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S. Securities Act"	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Water Supply Hotel"	Taizhou Water Supply Building Hotel Co., Ltd.* (台州供水大廈酒店有限公司), a limited liability company established in the PRC on 15 December 2006 which was wholly-owned by our Company until 13 September 2017
"Wenling Water Supply"	Wenling Water Supply Co., Ltd.* (溫嶺市供水有限公司), a limited liability company established in the PRC on 20 November 2007 which held 18% of the equity interest of Taizhou City Water as of the Latest Practicable Date and is a connected person of our Company
"Wenling Zeguo Water Supply"	Wenling Zeguo Water Supply Co., Ltd.* (溫嶺市澤國自來水有限公司), a limited liability company established in the PRC on 9 November 2006 and a wholly-owned subsidiary of our Company
"**WHITE** Application Form(s)"	the application form(s) to be completed by members of the public in Hong Kong who require such Hong Kong Offer Shares to be issued in the applicants' own name

"**White Form eIPO**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**YELLOW** Application Form(s)"	the application form(s) to be completed by members of the public in Hong Kong who require such Hong Kong Offer Shares to be deposited directly into CCASS
"Yuhuan Water Group"	Yuhuan Water Supply Group Co., Ltd.* (玉環市水務集團有限公司), a limited liability company established in the PRC on 27 August 2003 which held 40% of the equity interest of Taizhou South Bay Water Supply as of the Latest Practicable Date
"Yuhuan Water Supply"	Yuhuan Water Supply Co., Ltd.* (玉環市自來水有限公司), a limited liability company established in the PRC on 12 May 1992 and a connected person of our Company by virtue of being a subsidiary of Yuhuan Water Group which held 40% shareholding interest in Taizhou South Bay Water Supply as of the Latest Practicable Date
"Zeguo Service Reservoir (澤國配水站)"	the service reservoir owned and operated by Wenling Zeguo Water Supply
"Zeguo Water Treatment Plant"	the water treatment plant owned and operated by Wenling Zeguo Water Supply
"Zhejiang Huangyan Financial Development"	Zhejiang Huangyan Financial Development Company* (浙江黃岩財務開發公司) (formerly known as Huangyan District Financial Development Company* (黃岩區財務開發公司)), a wholly people-owned enterprise (全民所有制企業) established in the PRC on 12 April 1993 which directly held 17.79% shareholding interest in our Company as of the Latest Practicable Date
"Zhejiang Huangyan Water Supply"	Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司), a limited liability company established in the PRC on 1 January 1989 and a connected person of our Company by virtue of being a subsidiary of Huangyan SAOG, a substantial shareholder of our Company

"Zhejiang Mingji"	Zhejiang Mingji Real Estate Co., Ltd.* (浙江銘基置業有限公司), a limited liability company established in the PRC on 5 June 2000 which was owned as to 62.8% by our Company until 10 October 2017
"Zhejiang Taixin"	Zhejiang Taixin Asset Management Co., Ltd.* (浙江台信資產管理有限公司) (formerly known as Taizhou Taixin Investment Management Co., Ltd.* (台州市台信投資管理有限公司) and Taizhou Trust and Investment Company* (台州市信託投資公司)), a limited liability company established in the PRC on 9 May 2002 which directly held 13.41% shareholding interest in our Company as of the Latest Practicable Date
"Zhejiang Taizhou Landscape"	Zhejiang Taizhou Landscape Engineering Co., Ltd.* (浙江省台州市園林綠化工程有限公司) (formerly known as Zhejiang Taizhou Landscape Corporation* (浙江省台州地區綠化總公司) and Zhejiang Taizhou Landscape Co.*, (浙江省台州市園林綠化工程公司)), a limited liability company established in the PRC on 28 June 1993 which was wholly-owned by our Company until 14 November 2018
"Zhejiang Zhijiang"	Zhejiang Zhijiang Group Co., Ltd.* (浙江之江集團有限公司) (formerly known as Wenling Zhijiang Real Estate Development Co., Ltd.* (溫嶺市之江房地產開發有限公司)), a limited liability company established in the PRC on 29 July 1994 and one of our Founders. Zhejiang Zhijiang was deregistered on 1 September 2015 and did not have any shareholding interest in our Company as of the Latest Practicable Date
"Zheshang Asset Management"	Zhejiang Zheshang Asset Management Co., Ltd.* (浙江省浙商資產管理有限公司), a limited liability company established in the PRC on 6 August 2013 which held 60% equity interest of Zhejiang Taixin as of the Latest Practicable Date
"Zhuxi Reservoir"	Zhuxi Reservoir (朱溪水庫), a reservoir under construction and further details of which are set out in "Business — Our water supply systems — Taizhou Water Supply System (Phase III)" of this prospectus
"%"	per cent.

Unless expressly stated or the context otherwise requires, all data in this prospectus is as of the date of this prospectus.

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

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

The English translation of company names in Chinese or another language which are marked with "" are for identification purposes only. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions, PRC-incorporated companies or other entities or any descriptions for which no English translation exists are unofficial translations for identification purposes only.*

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and/or its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"alkalinity"	a measurement of the water's ability to neutralise acidity
"breakeven period"	refers the period when the accumulated revenue can offset accumulated costs and expenses
"chroma"	a measurement of colourfulness of water
"municipal water"	refers to the water which is produced and meet the standards of Standards for Drinking Water Quality (GB5749-2006) (生活飲用水衛生標準 (GB5749-2006)) issued by the Ministry of Health of the PRC
"nephelometer"	an instrument for measuring the concentration of suspended particles in a liquid
"NTU"	Nephelometric Turbidity Units, the measurement units of turbidity from a nephelometer
"payback period"	refers to the period when the investment cost is fully recovered by the accumulated net cash inflow
"pH value"	a measurement of the acidity or alkalinity of a solution, numerically equals to seven for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from zero to 14
"pumping station"	a station comprises facilities including pumps and equipment for pumping water from one place to another through increase in pressure
"raw water"	refers to the untreated water in natural environment and supplied to municipal water supply factories for producing municipal water
"raw water procurement fee"	refers to the fee fixed by the local pricing authorities for procurement of water from reservoirs
"service reservoir (配水站)"	refers to water storage stations constructed and used for providing transient storage for municipal water

"tap water"	refers to municipal water supplied to a tap of end-users
"turbidity"	a measurement of the degree of cloudiness of water
"water supply system"	refers to a network used to transfer water, which usually comprises water pipelines, pumping stations, water treatment plants and related facilities and equipment
"water resources fee"	refers to the fee fixed by the local pricing authorities and paid to obtain water resources rights

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in "Summary", "Risk factors", "Industry overview", "Business", "Financial information" and "Future plans and use of proceeds" of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under "Risk factors" of this prospectus, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

The words and expressions such as "aim", "anticipate", "believe", "consider", "continue", "could", "estimate", "expect", "forecast", "going forward", "intend", "may", "might", "ought to", "plan", "potential", "predict", "project", "seek", "shall", "should", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements include statements relating to:

- our business prospects, strategies, plans, objectives and goals;
- our ability to meet the changing needs of our customers;
- the amount and nature of, and potential for, future development of our business;
- changes in the laws, rules and regulations of the local government in locations in which we operate;
- the general economic trends and conditions;
- our relationship with, and other conditions affecting, our suppliers and customers;
- our ability to recruit and retain employees and personnel;
- our ability to control costs;
- the actions and developments of our competitors;
- changes in general political, economic, legal, market and business conditions;
- other statements in this prospectus which are not historical facts;
- our dividend distribution plans;
- our capital commitment plans;
- the expansion plans of our production facilities and capacity;
- exchange rate fluctuations and restrictions;

- certain statements in "Financial information" of this prospectus with respect to trends in prices, operations, margins, overall market trends and risk management; and

- other factors beyond our control.

These forward-looking statements are subject to certain risks, uncertainties and assumptions, some of which are beyond our control. Further, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of our future performance. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of uncertainties and factors, including the risk factors set out in "Risk factors" of this prospectus. Our Directors confirm that these forward-looking statements are made after due and careful consideration.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Subject to the requirements of applicable laws and regulations, we undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus (whether as a result of new information, future events or developments or otherwise) after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus completely with the understanding that our actual future results or performance may be materially different from what we expect.

You should carefully consider the following information about risks, together with the other information contained in this prospectus, including our consolidated financial statements and related notes, before you decide to buy our H Shares. If any of the circumstances or events described below actually arises or occurs, our business, results of operations, financial condition and prospects would likely suffer. In any such case, the market price of our H Shares could decline, and you may lose all or part of your investment. This prospectus also contains forward looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

The raw water procurement fee and the water resources fee we pay to the local government authorities for water drawn from Changtan Reservoir and the unit price of water we sell to our customers is fixed by the local pricing authorities and subject to change beyond our control

The water procurement fee and the water resources fee we pay to the local government authorities for raw water drawn from Changtan Reservoir and the unit prices of raw water and municipal water we sell to our customers are fixed by the local pricing authorities. These prices may be adjusted from time to time according to change of regulations and government policies which are beyond our control, and our financial performance is susceptible to any changes in the raw water procurement fee and water resources fee and our selling prices fixed by the government.

The price adjustments promulgated by the Taizhou DRC in 2009, 2015 and 2017 involved increases in the raw water procurement fee, the water resources fee and the selling price of raw water and municipal water to municipal service providers. In addition, our selling prices of tap water to end-users are fixed by the People's Government of Wenling City. For more details, please refer to "Regulatory overview" and "Business — Our business model — pricing" of this prospectus. We have to sell our raw water, municipal water and tap water at such fixed prices fixed by the local pricing government, and we may experience low profit margin from such fixed prices. According to the relevant laws and regulations, water supply service providers may not apply for a review of the prices fixed by the local pricing authorities though it may apply for a price adjustment if it meets certain conditions including it still suffers losses with government subsidies. We cannot rule out the possibility that in future the relevant government authorities may upward adjust the raw water procurement fee and the water resources fee without a parallel increase in our selling price of raw water and municipal water to our customers. In such case, we are unable to transfer our increased cost to our customers and our profit will be adversely affected. Further, price adjustments made by the local government may involve an increase or a reduction in selling prices. Any reduction in our selling prices will adversely affect our revenue and profits.

Our financial conditions may be affected by the unit selling price of our water fixed by the local pricing authorities in relation to our new water supply systems

The Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) involve substantial investment costs of RMB2,994.8 million and RMB1,365.1 million, respectively. These two projects are under construction and are expected to complete in February 2022 and April 2022, respectively. Normally, the unit price of water at which we sell to our customers is fixed by the local pricing authorities after the construction of the projects is completed. In determining the unit selling price of water, the local pricing authorities will take into account various factors including the total investment costs actually incurred in relation to the projects, the expected useful life of the projects, anticipated water supply volume and expected rate of return. In the transit between the completion of the projects and unit selling price being fixed by the local pricing authorities, we may sell water to our customers based on an estimated price. If the selling price fixed by the local pricing authorities is higher than the estimated price, we will request our customer to pay us the shortfall. If the selling price fixed by the local pricing authorities is lower than the estimated prices, we have to refund the surplus to our customers. However, it may be practically difficult for us to chase for the shortfall. We cannot assure you that the local pricing authorities will fix the selling prices promptly after the completion of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), and if the selling price fixed by the local pricing authorities is higher than the estimated price at which we sold water to our customers prior to the price-fixing by the local pricing authorities and we are unable to recover the shortfall from our customers, this may result in adverse negative impact on our financial conditions, profits and rate of return and payback period of these two projects, in particular, our projects involve a substantial amount of capital investment.

Moreover, we cannot assure you that the prices fixed by local pricing authorities will be the same as or favourable to our expected prices. If the prices finally fixed by local pricing authorities are lower than our expectation, this will adversely affect our financial conditions, profits and profit margin and rate of return and payback period of these two projects.

Our new projects involve substantial investment amounts and postponement in the commencement of their operations due to delay in the construction works will adversely affect our financial conditions and high depreciation costs may adversely affect our profit and our growth strategies may not succeed as expected

Construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) is expected to be completed in February 2022 and April 2022, respectively. Delay in the construction works may occur from time to time due to factors beyond our control such as defaults of our sub-contractors, natural disasters, environmental hazards and industrial accidents. There is no assurance that these two projects will be completed as scheduled.

Since the investment costs of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) are substantial, and delay in the completion of these two projects will result in a postponement of their commencement of operations, and will lead to additional costs and expenses, including interests expenses, reduce the rate of return and extend the payback period of these two projects.

In addition, depreciation costs incurred by us after the completion of the construction of the projects may adversely affect our profits.

In connection with our new projects, the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we plan to further expand our business downstream to directly supply tap water to end-users in Taizhou. Despite that we have a strong track record and substantial experience in supplying raw water and municipal water to local municipal water service providers, and supplying tap water directly to end-users through Wenling Zeguo Water Supply, our subsidiary, we cannot assure you that our expansion plan will be successful and meet our anticipated objectives. There are factors which may affect our expansion plan. For example, we may fail to obtain the necessary initial capital to fund our future plans or employ suitable personnel to manage our expanded business and the payback period and breakeven period of our new projects may be longer than we expect. In that case, our future expansion plan may need to be adjusted or some of our future expansion plans may not be achieved or deliver the expected results.

We may face competition from other existing water supply service providers for the concession rights. We may also encounter unexpected difficulties such as unforeseen costs, delays in negotiating relevant agreements with counterparties and difficulties in dealing with local regulatory and governmental authorities and any changes thereof, over which we have limited control. Any failure or delay of our expansion plans may adversely affect our business, operating results and prospects.

The terms and conditions of the water we draw from Niu Tou Shan Reservoir and Zhuxi Reservoir are subject to further negotiation and determination of the parties

In view of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we have secured water supply sources in addition to Changtan Reservoir. We are entitled to draw water from Niu Tou Shan Reservoir (牛頭山水庫) (as a contingency arrangement in shortage of water supply from Changtan Reservoir) and Zhuxi Reservoir. However, the terms and conditions (such as selling price and volume) of the water we draw from Niu Tou Shan Reservoir and Zhuxi Reservoir are subject to the further negotiation and determination of the parties. In addition, our rights to draw water from these two reservoirs are not exclusive. There is no assurance that the terms and conditions of purchasing water from these two reservoirs finally agreed by the parties are commercially favourable to us or as we expected. If we are unable to reach agreements on terms and conditions, or such terms and conditions are less favourable to us or worse than we expected, our operations and financial performance may be adversely affected.

The actual supply volume of raw water and municipal water is subject to factors beyond our control, and the sales volume of our water is subject to water storage in reservoirs, restrictions of the downstream water supply capacity and climate factors

During the Track Record Period, we sourced all raw water for our business operation from Changtan Reservoir pursuant to the exclusive right granted by the People's Government of Taizhou. The water supply volume under our current Water Intake Permit is 280 million tonnes per year. For the year ended 31 December 2018, our water purchase volume was 264.2 million, represented 94.4% of the water supply volume under the current Water Intake Permit.

For the Taizhou Water Supply System (Phase III), we will primarily draw water from Changtan Reservoir, and, upon completion of construction, Zhuxi Reservoir as well. As a contingency arrangement, we are also entitled to draw water from Niu Tou Shan Reservoir. For the Taizhou Water Supply System (Phase IV), we will primarily draw water from Changtan Reservoir and the newly-built Zhuxi Reservoir.

The water volume and quality stored in these reservoirs are affected by factors beyond our control, such as the volume of rainfall, natural catastrophes and accidents which contaminate the water quality. Any negative interruption in the water volume and quality of these reservoirs would materially disrupt our ability to supply water and adversely affect our business and operations.

Moreover, we understand that our customers may purchase water from other small water treatment plants and these water treatment plants may draw water from reservoirs of small to medium sizes. In a year of plentiful rainfall, the small-to-medium sized reservoirs are able to supply water to the other small water treatment plants and therefore may affect the water volume purchased from us by our customers.

Our water supply systems are constructed with specified designed capacity as approved by the relevant local government. For the three years ended 31 December 2018 and the six months ended 30 June 2019, the utilisation rate of the raw water supply is 84.7%, 88.2%, 88.8% and 87.1% (annualised), and the utilisation rate for municipal water supply is 92.2%, 106.2%, 110.2% and 94.4% (annualised), respectively.

The utilisation rates of our water supply systems depend on a number of factors beyond our control, such as the designed water supply capacity of our customers and the demand for water. In addition, our capacity to supply water is limited by the maximum volume of water we can draw from our water source which is fixed by the local government. In light of these factors, we may not be able to utilise our designed water supply capacity to its maximum and fully realise our investments.

We generated all our revenue from our business operations in Taizhou during the Track Record Period

During the Track Record Period, we derived all our revenue from our operations in Taizhou and we will continue to focus our business and operations in Taizhou in the near future.

Our business growth therefore will closely depend on the economic development, the projected increase in population and urbanisation rate of Taizhou. According to the Frost & Sullivan Report, Taizhou's nominal GDP was RMB487.5 billion and ranked fifth in Zhejiang Province. From 2014 to 2018, Taizhou's urban population increased from 6.0 million to 6.1 million, with a CAGR of 0.4%, and the urbanisation rate during the same period increased from 59.5% to 63.0%. It is expected that the urbanisation rate of Taizhou will continue to grow from 2018 to 2023, reaching 68.0% in 2023. We cannot assure you that the economy of Taizhou will continue to grow and develop at the anticipated rate, or the macroeconomic of China and the global economy will not change adversely. If Taizhou experiences any adverse economic conditions, our business and financial performance may be materially and adversely affected.

We expose to risks associated with changes in regulations and policies for water supply services in the PRC, renewal of the relevant licences/permits required for our operations and the water volume we can draw fixed by the local government

Since water is essential to human and water supply is viewed as a public and social responsibility, the water supply industry is highly regulated and policy-driven so as to ensure

that the public has access to reliable and safe water supply. In the PRC, regulatory standards play a critical role in influencing the demand and returns for the water supply industry. Any changes in legislative, regulatory, industrial requirements or water quality standard may render certain of our water supply treatment facilities obsolete or increase the cost of our operations to comply with the amended requirement and standard.

Any changes in these regulations or standards for the water supply industry may make it necessary for us to adopt new technologies or to improve our existing technologies, which in turn may require the renovation or upgrade of existing facilities. Such renovation or upgrade could require more financial, human or other resources. In the event that we are unable to develop or source new and enhanced our facilities to keep up with such technological changes in a timely manner or at reasonable costs, we may not be able to maintain our competitive edge and our market share and profits may be adversely affected.

In addition, we rely on certain rights and authorisations granted by the local government to operate and manage our water supply system and the Water Intake Permit is granted for a certain period and subject to renewal upon its expiry on 25 April 2021. The Water Intake Permit states the maximum water volume we can draw and our growth is subject to such limit fixed by the local government. If the local government withdraws, or changes the conditions of such authorisations unfavourably and/or we are unable to renew the licences/permits required for our operations and/or reduce the maximum water volume we can draw or fail to adjust the maximum water volume to meet the increasing demand in a timely manner, our business, financial condition and results of operations will be materially and adversely affected.

We derive substantial amount of our revenue from a few customers, who are our connected persons

During the Track Record Period, the major customers of our Continued Operations were mainly local municipal water service providers. For the three years ended 31 December 2018 and the six months ended 30 June 2019, revenue generated from our five largest customers accounted for 88.8%, 89.5%, 90.0% and 89.6%, respectively of our total revenue of our Continued Operations. Among these major customers, Wenling Water Supply, Yuhuan Water Supply, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply are our connected persons under the Listing Rules, and we will continue sale to these companies after the Listing. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our sales to these connected persons amounted to RMB240.6 million, RMB284.8 million, RMB317.1 million and RMB138.4 million, representing 58.7%, 61.5%, 62.9% and 61.3%, respectively, of total revenue of our Continued Operations for the corresponding period. Please refer to "Business — Sales to connected persons" and "Connected transactions" of this prospectus for details. Given the nature of water supply industry, which, to a large extent, is driven by regulation and policies of the local government, we cannot assure you that the government will not change its policy and require these connected customers to purchase raw water and municipal water from other water suppliers, or reduce our water supply volume to these connected customers. If these major customers discontinue their businesses with our Group pursuant to a change of government policy, and we are unable to secure new customers, our financial conditions and results of operations will be materially and adversely affected.

Our business requires substantial initial capital investment and we require substantial funding for our business on an ongoing basis, our current and future projects, and any failure to obtain adequate funding or refinance could adversely affect our expansion plan, financial condition and results of operations

We are required to make substantial initial capital investments to construct the infrastructure in relation to our water supply network. The capital investment required to develop and construct these facilities varies based on the cost of fixed assets and the cost of construction. The price of such equipment and/or construction may increase if the prices of key components, commodities and raw materials necessary to build such equipment increase. Other factors affecting the amount of capital expenditures include, among others, labour costs and finance expenses.

Our operations are generally capital-intensive and we require significant capital resources to fund our operations and to construct, maintain and operate our water supply systems. For the three years ended 31 December 2018 and the six months ended 30 June 2019, we incurred a capital expenditure of RMB18.2 million, RMB327.8 million, RMB373.8 million and RMB350.8 million, respectively, comprising purchasing of property, plant and equipment, land use rights and right-of-use assets, primarily for construction services of our water supply infrastructure and water treatment infrastructure for the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). We estimate that our capital expenditures for the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply Systems (Phase IV) for the six months ending 31 December 2019 to be RMB369.1 million.

A significant increase in the costs of developing and constructing our water supply facilities could materially and adversely affect our business, financial condition, operating results and cost of implementation of our planned expansion. Increased capital expenditure will cause us to incur higher depreciation costs and maintenance costs in the future and we may require additional borrowings and be subject to increased interest expenses, which may negatively affect our profitability.

During the Track Record Period, we relied in part on external sources of funding, including bank borrowings to fund the construction, upgrading and repair and maintenance of our water supply projects. Our ability to obtain external funding depends on various factors, including but not limited to, general economic and capital market conditions, general conditions in the water supply industry, economic conditions in the Taizhou, government policies, the availability of credit from banks and other lenders and the performance of our operational projects. We cannot assure you that such external funding will be available to us on acceptable terms, or at all. Failure to obtain sufficient funding for our projects may delay the implementation of our projects, expose us to potential penalties under the relevant agreements and delay the completion of construction or commencement of operation, any of which could adversely affect our business, financial condition, results of operations and prospects.

We have high gearing ratio and high level of bank and other borrowings that may expose us to liquidity risk and our finances costs are subject to changes in interest rates

Our business operation relies on cash generated from our business operations and bank borrowings and we expect this will be the case in the future. As of 31 December 2016, 2017 and 2018, and 30 June 2019, our total outstanding interest-bearing bank and other borrowings in relation to the Continued Operations was RMB1,473.3 million, RMB1,316.3 million, RMB1,004.8 million and RMB1,300.0 million, respectively, and our gearing ratio was 333.1%, 270.6%, 155.7% and 186.4% as at 31 December 2016, 2017 and 2018, and 30 June 2019, respectively. Our high level of bank and other borrowings and gearing ratio may adversely affect our liquidity and business operations, including but not limited to (i) increase our vulnerability under adverse economic condition; (ii) potentially limit our ability to raise more debt; and (iii) increase our exposure to interest rate fluctuation. If we continue to have a high level of bank and other borrowings, this would expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities in the future, which may adversely affect our results of operations and financial positions.

Our finance cost is subject to any change in the interest rates. We cannot assure you that there will not be a rise in the interest rates or guarantee that our business, results of operations and financial position will not be adversely affected as a result of such adjustment. Future increases in interest rates will increase our finance costs and thereby adversely affect our business, financial condition and results of operations.

Our effective interest rate for the Continued Operations ranged from 2.8% to 5.4% for the year ended 31 December 2016, and 2.8% to 5.15% for the two years ended 31 December 2018, and the six months ended 30 June 2019. For the Continued Operations, our finance costs were RMB38.3 million, RMB32.5 million, RMB26.6 million and RMB8.7 million, respectively, and our capitalised interest amount was nil, RMB14.5 million, RMB15.9 million and RMB15.6 million, respectively, for the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019. During the Track Record Period, our main sources of capital were bank borrowings and other borrowings and cash generated from operating activities.

We are exposed to credit risk of our customers

As of 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amount of our trade receivables were RMB175.3 million, RMB215.4 million, RMB159.2 million and RMB136.7 million, respectively. Our trade receivables mainly represent the amounts receivable from customers for water supply business. As of 31 December 2016, 2017 and 2018 and 30 June 2019, our provision of impairment for trade receivables were RMB49.8 million, RMB50.4 million, RMB50.0 million and RMB50.7 million, respectively. We made provision for impairment by applying the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. As at 31 December 2016, 2017, 2018 and 30 June 2019, our average trade receivables turnover days were approximately 71 days, 115 days, 99 days and 78 days respectively. We normally grant our customers a credit period of 60 days. Given that the average trade receivables turnover days were longer than the credit period we granted to our customers, most of whom are state-owned enterprises and have a good track record with us during the Track Record Period, should the credit worthiness of our customers deteriorate, a significant number of our customers fail to settle their trade receivables in full for any reason

or our customers delay in making payments to our Group within the credit period, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. Our liquidity and operational cash flows could be materially and adversely affected if the trade receivables cycles or collection periods lengthen or if we encounter a material increase in default of payment from customers. We cannot assure you that our customers will meet their payment obligations on time or in full, or that our trade receivables turnover days will not increase. Any inability on the part of our customers to settle or promptly settle the amount due to us may materially and adversely affect our business, financial conditions and results of operations.

We may be adversely affected by material issues that affect our associate

We have invested in Taizhou Zhuxi Reservoir Development Co., Ltd., which is accounted as investment in associate. For the three years ended 31 December 2018 and the six months ended 30 June 2019, there were no share of profit or loss of an associate in our consolidated statements of profit or loss due to that majority of the costs incurred by the associate were for the construction of reservoir and were capitalised as construction in progress instead of charging the costs to profit or loss. The associate only incurred minimal other expenses such as administrative expenses that had very little impact on the performance of our Group. The performance of the associate company may affect our results of operations and financial position after the completion of construction of the reservoir. The success of an associated company depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realise the anticipated economic and other benefits from our associated company. In addition, the other shareholders in the associated company may have economic or business interests or goals or philosophies that are inconsistent with ours.

In addition, our investment in associate is subject to liquidity risk. Our investment in associate is not as liquid as other investment products as there is no cash flow until dividends are received even if our associate reported profits under the equity accounting. Furthermore, our ability to promptly sell our interests in the associate in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell our interests in the associate for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associate may significantly limit our ability to respond to adverse changes in the performance of our associate. In addition, if there is no share of results or dividends from our associate, we will also be subjected to liquidity risk and our financial condition or results of operations could be materially affected. In addition, since we do not have full control over the business and operations of our associated company, we cannot assure that it has been, or will be in strict compliance with all applicable PRC laws and regulations. We cannot assure you that we will not encounter problems with respect to our associated company, and our associated company will not violate PRC laws and regulations, which may have an adverse effect on our business, results of operation and financial condition.

Our business depends substantially on our ability to attract and retain experienced professionals

The sustainable growth of our business depends upon the continued service of our senior management. The industry experience, expertise and contributions of our executive Directors and other members of our senior management as set out in "Directors, supervisors and senior management" in this prospectus remain essential to our continuing success.

We will require an increasing number of experienced and competent executives to implement our business plans. If we lose a number of our key management members and are unable to recruit and retain personnel with equivalent qualifications, the growth of our business could be adversely affected.

Our business, financial performance and prospects also depend on our ability to employ, train and retain highly skilled personnel, including managerial, design, engineering and other technical professionals. We need to recruit and retain a large number of highly qualified engineers and other skilled workers for our water supply infrastructure and operation. In addition, we need to hire qualified managerial, technical and other personnel to implement our business initiatives as we expand our operations.

Competition for skilled personnel is generally intense in the PRC. We cannot assure you that we will be able to maintain an adequate skilled labour force necessary to execute our projects or to perform other corporate activities, and staff costs may increase as a result of a shortage in supply of qualified personnel. If we fail to attract and retain personnel with suitable managerial and technical expertise or if we fail to maintain an adequate labour force, our business operations could be adversely affected and our future growth and expansion may be hindered.

We engage third party service providers for the construction of our projects

We engage third parties to undertake the design and construction of our water supply projects. During the Track Record Period, we sub-contracted these works to third party contractors through public tender process. For details of the sub-contract, please refer to "Business — Project construction and operation" in this prospectus. We cannot assure you that we are able to exercise the same degree of control over the quality of work performed by such third party contractors as our internal operation or that their workmanship will not contain any defect which may adversely affect our water supply projects. Further, there is no assurance that our sub-contractors would deliver their works according to the schedule stated in the agreement and the pre-requisite standard. The contractors may default in performing their duties and such default may result in delay in the completion of the construction of our projects.

We also cannot assure you that the services rendered by such sub-contractors will be continuously available on commercially acceptable terms, or at all. Any interruption in or loss of their services and our failure to engage an appropriate replacement on commercially acceptable terms, or at all, in a timely manner, may materially and adversely affect our business, financial condition and operating results.

We may not have adequate insurance to cover all hazards common to the water supply industry to which our operations are subject

Our main assets include, among others, infrastructure for water supply systems. Operating these assets involves risks and hazards, including equipment failures, natural disasters, environmental hazards and industrial accidents. Significant operational hazards and natural disasters may cause interruptions or suspension in our operations that could have a material adverse impact on our business and financial condition, as well as our reputation.

These hazards may also cause significant personal injury or death, severe damage to and destruction of property, plant and equipment, and contamination of or damage to the environment. We may also face criminal liabilities imposed by the government and/or civil liabilities or fines as a result of damage suffered by third parties, which may require us to make indemnification payments in accordance with applicable laws.

We have obtained insurance policies to cover certain risks associated with our operations and construction projects. Please refer to "Business — Insurance" in this prospectus for details. We cannot assure you that our insurance policies are adequate or that we will be insured fully against all risks and losses that may arise. If we incur a material loss or a loss that significantly exceeded the limits or coverage of our insurance policies, our business, financial condition and operating results may be materially and adversely affected. In addition, our insurance policies may be subject to review by our insurers from time to time, and we cannot assure you that we will be able to renew these policies on similar or acceptable terms, or at all.

Any government grant currently or previously available to us could be reduced or discontinued

During the Track Record Period, we received several grants from the local governments as compensation and incentive to support our operations in Taizhou. For the three years ended 31 December 2018 and the six months ended 30 June 2019, we recognised government grants of nil, RMB3.0 million, RMB5.6 million and RMB0.8 million, respectively, as income. However, we cannot predict or guarantee the amount of grants obtained from the local government, or such government grants will continue. If the local government reduces or cancel such government grants, our financial condition and results of operations may be affected.

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

During the Track Record Period, we are entitled to receive VAT refunds when the overall VAT payment exceeds 3% of our raw water supply revenue. Our raw water supply business was entitled to the VAT rate of 11% in 2012 and adjusted to 10% in 2018 and 9% in 2019. When the overall VAT payment exceeding 3% of our raw water supply revenue, the portion was refunded to us. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our VAT refund amount were RMB14.1 million, RMB8.7 million, RMB11.6 million and RMB6.5 million, respectively. For details, please refer to "Financial information — Principal components of profit or loss and other comprehensive income for the Continued Operation — Other income and gains" of this prospectus.

During the Track Record Period, our wholly-owned subsidiary, Taizhou Environmental Development, enjoyed a preferential tax treatment of 50% deduction of the enterprise taxible income and a preferential tax rate of 20%. For details, please refer to "Financial information — Principal components of profit or loss and other comprehensive income for the Continued Operation — Income tax expense".

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

We may be involved in disputes, legal and other proceedings arising in relation to the construction works of projects

We may be involved in disputes with our customers, contractors and other parties involved in the projects from time to time in respect of various matters, including measurement, quality, construction progress, instruction variations, failure to adhere to the pre-requisite standards, breach of contract terms, work safety and other project related claims, such as personal injury and accident claims.

There is no assurance that we may be able to resolve every instance of disputes by way of negotiation and/or mediation with the relevant parties. If we fail to do so, it may lead to legal proceedings, which can be costly and time-consuming. We cannot assure you that the outcome of such legal proceedings will be favourable to us, and we may be liable to pay a significant amount of damages which may adversely affect our operations and financial results.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and business development strategies

Our operations are conducted in the PRC and all of our revenue is sourced from the PRC. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operation could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses, financial condition and results of operations.

There are uncertainties relating to the legal system of China that may affect the protection afforded to our business and our Shareholders

We and all of our current operating subsidiaries are organised under the laws of the PRC. Our business and operations in China are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. The PRC government has promulgated laws and regulations over the past 20 years regarding matters such as corporate organisation and governance, issuance and trading of securities, shareholders' rights, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new and evolving, are subject to different interpretations and may be inconsistently implemented and enforced. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the preemption of local regulations by national laws. In addition, only a limited volume of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and can adversely affect the value of your investment.

PRC laws and regulations govern our operations in China. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. As such, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us and our management

We are incorporated under the laws of the PRC and all of our business and operations are located in the PRC. In addition, almost all of our directors, supervisors and officers reside in the PRC and substantially all of their assets are located in the PRC. It may be difficult for investors to effect service of process upon those persons residing in China or to enforce against us or them in China any judgments obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult or even impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**Arrangement**"). Under the Arrangement, a party with an enforceable final court judgment rendered by any designated people's court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people's court of China or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a Chinese court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against certain of our assets or Directors in China in order to seek recognition and enforcement of foreign judgments in China. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement remains uncertain.

Furthermore, although we will be subject to the Listing Rules and the Takeovers Code upon the listing of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Moreover, the Takeovers Code do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Disputes between holders of H Shares and us, our Directors, Supervisors, senior officers or holders of non-listed shares, arising out of our Articles of Association or the rights or obligations conferred or imposed upon by the PRC Company Law and related rules and regulations concerning our affairs, including the transfer of our Shares, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to arbitration organisations in Hong Kong or in China. Awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in China by any holder of H Shares to enforce a Hong Kong arbitral award made in favour of holders of H Shares would succeed.

Holders of H Shares may be subject to PRC taxation

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realised upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations.

Pursuant to the PRC Individual Income Tax Law (中華人民共和國個人所得税法), non-PRC resident individuals are subject to a 20% PRC individual income tax on their dividend income derived from the PRC and we are required to withhold such tax from our dividend payments. If there is an applicable tax treaty to avoid double taxation and taxation evasion between China and the jurisdiction where the foreign individual resides, the applicable tax rate shall be determined in accordance with such tax treaty. Considering that the applicable tax rate on dividends is usually 10% according to tax treaties or tax agreements and that the number of stockholders is large for a listed company, to simplify the tax administration, generally a domestic non-foreign-investment enterprise with shares listed in Hong Kong can withhold dividend income tax at a rate of 10%. There remains uncertainty as to whether gains realised by non-PRC resident individuals on disposition of H Shares are subject to PRC individual income tax.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法) and other applicable PRC tax rules and regulations, Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company and gains realised upon the sale or other dispositions of equity interest in a PRC company. The 10% tax rate is subject to reduction under any special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise domiciles.

There remains substantial uncertainty as to the interpretation and implementation of the PRC EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities, including whether and how non-PRC resident H shareholders are subject to enterprise income tax rate on gains realised upon the sale or other dispositions of their H shares. In addition, the value of your investment in our H Shares may be materially affected by unfavourable changes in the applicable tax rates currently stipulated by the PRC tax authorities.

For additional information, please refer to "Taxation and foreign exchange" in Appendix III to this prospectus.

Payment of dividends is subject to restrictions under PRC law

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our shareholders, including in periods in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

In addition, we are required to comply with the dividend distribution rules prescribed by the PRC regulatory authorities when determining our dividend payout ratios. The CSRC may further amend the dividend distribution rules for listed companies in China in the future, which could significantly affect the amount of capital available to support the development and growth of our business.

PRC government's control of currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares

We receive most of our revenue in RMB, which generally cannot be freely converted into any foreign currencies. In the meanwhile, a portion of our revenue must be converted into other currencies in order to meet our foreign currency obligations such as payment of dividends to holders of our H Shares. Under the current foreign exchange regulations in the PRC, following completion of the Global Offering, we will be permitted to undertake foreign exchange transactions under the current account subject to certain procedures, including the payment of dividends in foreign currencies, without prior approval from the SAFE. However, there is no assurance that these foreign exchange policies permitting payment of dividends in foreign currencies will continue, and in the circumstance of a policy change, we may no longer be able to pay dividends in foreign currencies to holders of our H Shares. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of the SAFE. The PRC government authorities may further implement rules and regulations in the future, which could restrict the use of foreign currency under current account and capital account in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditures, and could materially adversely affect our business, financial condition and results of operations.

Fluctuation of RMB could materially affect our financial condition and results of operations

We collect all of our revenue in RMB, some of which will need to be converted into foreign currencies to pay dividends to our Shareholders. The value of the RMB fluctuates, is subject to changes in the government policies (including those of the PRC government) and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market.

In July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC expanded the floating range of RMB against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1.0% and further expanded it to 2.0% in March 2014. In August 2015, the PBOC announced that the mid-point exchange rate for the floating range of the RMB against the U.S. dollar will be determined based on market maker submissions that take into account the RMB-U.S. dollar exchange rate at the previous day's closing of the inter-bank spot foreign exchange market, the supply and demand dynamics and the movements of other major currencies. With an increased floating range of the RMB's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the RMB may further appreciate or depreciate significantly in value against the Hong Kong dollar

and the U.S. dollar or other foreign currencies in the long-term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the RMB against the U.S. dollar or other foreign currencies. We cannot assure you that the RMB will not experience significant appreciation or depreciation against the U.S. dollar or other foreign currencies in the future.

In the event of significant change in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to pay dividends in foreign currencies may be adversely affected. In addition, any dividends in respect of our H Shares will be declared in RMB and paid in Hong Kong dollars. Accordingly, holders of H Shares in countries other than China are subject to risks arising from adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce any dividends paid in respect of the H Shares. Furthermore, following the Global Offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be denominated in currencies other than RMB and we may consider overseas expansion or development plans from time to time. Any appreciation of the RMB against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our proceeds from the Global Offering and our foreign currency-denominated assets, if any.

There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilised, and may not in the future utilise, any such instrument. Furthermore, we are also currently required to obtain SAFE'S approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control in the future may have a material adverse effect on our business operations, financial condition and results of operations

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions we conduct our business. These regions may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or are susceptible to epidemics, such as SARS, avian influenza, H1N1 influenza, H5N1 influenza, H7N9 influenza or H3N2 influenza, potential wars or terrorist attacks, riots, disturbances or strikes. Serious natural disasters may result in a tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially and adversely affect business activities in the affected regions, which could therefore materially affect our operations. Acts of war or terrorism, riots or disturbances may also injure or loss of lives to our employees, and disrupt our business network and operations. Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, and materially and adversely impact our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, an active trading market for our H Shares may not develop, and their trading price may fluctuate significantly

Prior to the completion of the Global Offering, no public market existed for our H Shares. The initial Offer Price range to the public for our H Shares is the result of negotiations between us and the Sole Global Coordinator, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. There can be no assurance that an active trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price.

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

The price and trading volume of our H Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation, fluctuations in the market prices and demand for our products or services, unexpected business interruptions resulting from natural disasters or power shortages, our inability to obtain or maintain regulatory approval for our operations, or political, economic, financial and social developments in China, Hong Kong and the global economy, could cause large and sudden changes in the volume and price at which our H Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially adversely affect the market price of our H Shares.

Since there will be a time gap of several days between the price determination and the commencement of trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before the trading of our H Shares commences

The Offer Price of our H Shares under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. During that period, investors of our H Shares may not be able to sell or otherwise deal in our H Shares. Therefore, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other unfavourable circumstances that may arise during the period between the Price Determination Date and the date on which the trading of our H Shares begins.

Future sales or perceived sales of substantial amount of our Shares in the public market and conversion of our Domestic Shares into H Shares could materially adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future

The market price of our H Shares could decline as a result of future offering or sales of Shares by us or our Shareholders, or the perception that such offerings or sales could occur.

Please see "Underwriting — Underwriting Arrangements and Expenses" for details of restrictions that may apply to future sales of our H Shares. Future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares or the perception that such sales or issuances may occur could materially adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and at a price favourable to us.

Our Domestic Shares may be converted into H Shares to be traded on the Stock Exchange, provided that the conversion and trading of H Shares so converted shall only be effected after all requisite internal approval process have been duly completed and the approval from the CSRC and other approval authorities (if applicable) and the Stock Exchange have been obtained. In addition, such conversion and trading must, in all aspects, comply with the regulations prescribed by the CSRC and the regulations, requirements and procedures of the Stock Exchange. If a significant number of Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially adversely affect the prevailing market price of our H Shares.

You may experience immediate and substantial dilution as a result of the Global Offering

The Offer Price of our H Shares is higher than our net tangible asset value per Share immediately prior to the Global Offering. Therefore, you and other purchasers of our H Shares in the Global Offering will experience an immediate and substantial dilution in pro forma net tangible asset value of HK$4.14 per H Share (assuming an Offer Price of HK$4.61 per H Share, being the mid-point of our indicative Offer Price range between HK$4.21 and HK$5.01 per H Share), and existing holders of our Shares will receive an increase in net tangible asset value per share of their Shares. See "Unaudited pro forma financial Information" in Appendix II to this prospectus. In addition, holders of our H Shares may experience a further dilution of their interest if the Sole Global Coordinator (for itself and on behalf of the International Underwriters) exercise the Over-allotment Option or if we issue additional H Shares or equity-linked securities at a price lower than our net tangible asset value per H Share at the time of issuance.

Future financing may cause a dilution in your shareholding or place restrictions on our operations

We may raise additional funds in the future to finance the expansion of our capacity, the enhancement of our research and development capabilities, the development of our operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of our new equity or equity-linked securities other than on a pro rata basis to the existing holders of our H Shares, the percentage ownership of such holders in us may be reduced and they may experience a dilution in their net tangible asset value per H Share, and such new securities may confer rights and privileges that may take priority over those conferred by the H 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 for the payment of dividends;

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flow to fund capital expenditure, 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.

Dividends declared in the past may not be indicative of our dividend policy in the future

During the Track Record Period, we did not declare or pay dividend. We cannot guarantee when, if and in what form or size dividends will be paid in the future. The determination of whether to pay a dividend and in what amount is based on our business and financial performance, capital and regulatory requirements, general business conditions and other factors that our Board of Directors deem relevant. We may not have sufficient or any profits for dividend distributions in the future, even if our financial statements indicate that our operations have been profitable. Please see "Financial information — Dividend policy".

Our substantial shareholders have substantial influence over our Company and each of their interests may not be aligned with the interests of holders of H Shares

Immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised, Taizhou Urban Construction, a wholly-owned subsidiary of Taizhou SCOG, will hold 21.63% of our share capital (assuming the Over-allotment Option is not exercised), or 20.84% of our share capital (assuming the Over-allotment Option is exercised in full). For details of Taizhou SCOG and Taizhou Urban Construction, please see "Relationship with Taizhou SCOG." Accordingly, Taizhou SCOG and Taizhou Urban Construction will, through their voting power, be able to exercise substantial influence over our operations and business affairs, including our overall strategy and investment plan, election of directors, assessment of executives and senior management before they take office and other significant corporate actions. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive holders of H Shares of an opportunity to receive a premium for their H Shares as part of a sale of our Company and might reduce the price of our Shares. In addition, the interests of Taizhou SCOG and Taizhou Urban Construction may differ from the interests of the holders of H Shares. It is possible that Taizhou SCOG and Taizhou Urban Construction may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, other actions or make decisions which conflict with the best interests of holders of H Shares.

We have significant discretion as to how we will use the net proceeds of the Global Offering and you may not necessarily agree with how we use them

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favourable return to our Shareholders. We plan to use the net proceeds from the Global Offering to fund capital expenditure for the Taizhou Water Supply System (Phase III). Please see "Future plans and use of proceeds". However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the Global Offering.

We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official governmental sources or other sources contained in this prospectus

Certain facts, statistics and data contained in this prospectus relating to the water supply industry in Taizhou, Zhejiang Province, the PRC have been derived from various official government publications or other third party reports we generally believe to be reliable. We have taken reasonable care in the reproduction or extraction of the official government publications or other third party reports for the purpose of disclosure in this prospectus and 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. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside China and Hong Kong. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, you should give due consideration as to how much weight or importance they should attach to or place on such facts.

You should rely on this prospectus in making investment decisions with respect to our H Shares

Prior to the publication of this prospectus, there may be press and media coverage regarding us and the Global Offering, which may include certain information not contained in this prospectus. We have not authorised disclosure of any such information in the press or other media. Such information, whether or not accurate or applicable, may materially and adversely affect our reputation, business, financial condition and the price of our H Shares. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information, and disclaim responsibility for such information. Accordingly, prospective investors are cautioned to make their investment decisions with respect to our H Shares on the basis of the information contained in this prospectus only and should not rely on any other information. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. The transactions under respective agreements are subject to reporting, annual review, announcement and/or circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and we have applied for waivers from compliance with the applicable requirements under Rule 14A.105 of the Listing Rules. We have received from the Stock Exchange a waiver from strict compliance with the announcement and/or circular and independent Shareholders' approval requirements set out under Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waivers are set out in "Connected transactions" in this prospectus.

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, an issuer applying for a primary listing on the Main Board of the Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of the issuer's executive directors must ordinarily reside in Hong Kong. However, since our core business and operations are located in the PRC and we do not have, or expect to have in the near future, business operations in Hong Kong, members of our senior management team are and will continue to be based in the PRC. At present, none of the executive Directors are ordinarily resident in Hong Kong. Further, our Directors consider that it would be practically burdensome and not commercially viable for our Company to appoint more Hong Kong residents as additional executive Directors or to relocate any of the executive Directors in the PRC to Hong Kong merely for the purpose of complying with Rule 8.12 and Rule 19A.15 of the Listing Rules. We do not, and do not contemplate in the foreseeable future that we will, have any management presence in Hong Kong for the purpose of satisfying the foregoing requirements.

Accordingly, we have applied to and been granted by the Stock Exchange a waiver in favour of our Company from strict compliance with the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules with regards to maintenance of sufficient management presence, on the following conditions to ensure that regular and effective communication is maintained between the Stock Exchange and us:

(a) **Authorised representatives**: pursuant to Rules 2.11 and Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives, being Mr. Yan Chuanhua, the Chairman and an executive Director, and Ms. Siu Pui Wah, our Company's joint company secretary, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorised representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorised representatives are authorised to communicate on our behalf with the Stock Exchange;

(b) **Directors**: all of the authorised representatives will have means to contact all members of the Board (including the independent non-executive Directors), each of whom are authorised to communicate on behalf of our Company with the Stock Exchange, as well as of the senior management team promptly at all times as and when it wishes to contact our Directors on any matters. We shall promptly inform the Stock Exchange of any changes of the respective contact details of any of our Directors.

To enhance the communication among the Stock Exchange, the authorised representatives and our Directors, all Directors (including the independent non-executive Directors) will provide their respective office phone numbers, mobile phone numbers, fax numbers and email addresses (where applicable) to the authorised representatives and the alternative authorised representative. In the event that any of our Directors (including the independent non-executive Directors) expects to travel and/or otherwise be out of office, he or she will have to provide the phone number of the place of his or her accommodation or other means of communications to the authorised representatives and the alternative authorised representative.

The Directors who are not ordinarily resident in Hong Kong (including the independent non-executive Directors) possess or are eligible to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

(c) **Compliance adviser**: we have retained the services of a compliance adviser, being Sinolink Securities (Hong Kong) Company Limited (the "**Compliance Adviser**"), in accordance with Rule 3A.19 of the Listing Rules. The Compliance Adviser will act as an additional channel of communication with the Stock Exchange in accordance with the requirements under the Listing Rules, for the period from the Listing Date to the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date. The Compliance Adviser will be available to answer enquiries from the Stock Exchange and will act as our principal channel of communication with the Stock Exchange when the authorised representatives are not available.

We shall also procure that the authorised representatives, Directors and other relevant officers will provide promptly such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser's duties as set forth in Chapter 3A of the Listing Rules. We shall ensure that there are adequate and efficient means of communication among itself, the authorised representatives, Directors and other relevant officers as well as the Compliance Adviser, and will keep the Compliance Adviser informed of all communications and dealings between the Stock Exchange and our Company.

(d) **Other professional advisers**: we will also appoint and retain other professional advisers (including legal advisers) after the Listing to assist us in dealing with any questions which may be raised by the Stock Exchange and to ensure there will be efficient communication in between.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

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

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

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

(b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

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

(b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (WUMP) Ordinance, and the Takeovers Code;

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

(d) professional qualifications in other jurisdictions.

We have appointed Ms. Chen Liying as one of our joint company secretaries. Ms. Chen Liying joined our Group in August 2001 and is the chief accountant and secretary of the Board, and has over 18 years of managerial experience in finance-related matters. Ms. Chen Liying, however, does not possess the specified qualifications required by Rule 3.28 of the Listing Rules.

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

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

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

- before the end of the aforesaid three-year period, the qualifications and experiences of Ms. Chen Liying will be re-evaluated; Ms. Chen Liying is expected to demonstrate to the Stock Exchange's satisfaction that she, having had the benefit of Ms. Siu Pui Wah's assistance for three years from the Listing Date, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules; if such requirements cannot be satisfied, we will employ a suitable candidate who will be able to comply with the requirements under Rule 8.17 of the Listing Rules as the company secretary of our Company.

Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 3.28 and Rule 8.17 of the Listing Rules. Such waiver will be revoked immediately if and when Ms. Siu Pui Wah ceases to provide such assistance. We will liaise with the Stock Exchange before the end of the three-year period to enable it to assess whether Ms. Chen Liying, having had the benefit of Ms. Siu Pui Wah's assistance for three years, will have acquired experience within the meaning of the Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

For further information regarding the qualifications of Mr. Yan Chuanhua, Ms. Chen Liying and Ms. Siu Pui Wah, please refer to "Directors, Supervisors and senior management" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 about our Group. Our 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 Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of our or their respective directors, affiliates, advisers, agents or representatives or any person, or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the H Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably and 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 "Structure and Conditions of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in "How to apply for the Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

CSRC APPROVAL

CSRC issued its approval for the Global Offering and our application to list the H Shares on the Stock Exchange on 12 September 2019. In granting such approval, CSRC accepts no responsibility for our financial soundness nor the accuracy of any of the statements made or opinions expressed in this prospectus or the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, and the International Offering is expected to be fully underwritten by the International Underwriters. The Global Offering is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The Global Offering is managed by the Sole Global Coordinator. If, for any reasons, the Offer Price is not agreed upon among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further information, please refer to "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distributions of this prospectus in any jurisdiction, other than in Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not 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 and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE H SHARES ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Offer Shares (including any H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option). No part of the share or loan 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 proposed to be sought in the near future.

The H Shares will be traded in board lots of 1,000 H Shares. The stock code of the H Shares is 1542.

REGISTERS AND HONG KONG STAMP DUTY

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

Dealings in Offer Shares registered in our H Share register of members will be subject to Hong Kong stamp duty.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, the H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

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

(ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each of our Shareholders to refer to all differences and claims arising from the Articles of Association or any rights or obligations confirmed or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. Please see "Summary of the Articles of Association" in Appendix V to this prospectus for further details;

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

(iv) authorises us to enter into a contract on his/her behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of Offer Shares.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in "How to apply for the Hong Kong 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 "Structure and Conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares — 4. Terms and conditions of an application" in this prospectus.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at an exchange rate of HK$1.00 = RMB0.89657. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain monetary amounts 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 which precede them.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Yan Chuanhua (顏傳華)	105#, No. 79 South Junyuan Xijin Yuyuan Jiaojiang District Taizhou, Zhejiang Province PRC	Chinese
Mr. Zhang Junzhou (章君周)	Room 2501, Unit 1, Building 6 Lakeview International Dayang Street Linhai, Zhejiang Province PRC	Chinese
Non-executive Directors		
Mr. Wang Haiping (王海平)	103#, Building 8 Jinshuiwan Small Community Jiaojiang District Taizhou, Zhejiang Province PRC	Chinese
Mr. Wang Haibo (王海波)	Room 901, Unit 1, Building 8 Haitang Huayuan Jiaojiang District Taizhou, Zhejiang Province PRC	Chinese
Ms. Fang Ya (方亞)	Room 1001, Unit 1, Building 6 West Street Small Community Xicheng Street Huangyan District Taizhou, Zhejiang Province PRC	Chinese
Mr. Yu Yangbin (余陽斌)	Room 301, Unit 2, Building 15 Wanxiang International Small Community Qianjiang North Road Shanqian Administrative Village Datian Street Linhai, Zhejiang Province PRC	Chinese

Name	Residential Address	Nationality
Mr. Ye Jianhua (葉建華)	Room 2101, Building 1 Huanghou Road Baiyun Community Gucheng Street Linhai, Zhejiang Province PRC	Chinese
Ms. Huang Yuyan (黃玉燕)	Room 303, Unit 2, Building 6 Xinming Peninsula Small Community Jiaojiang Xinjing Community Taizhou, Zhejiang Province PRC	Chinese
Mr. Yang Yide (楊義德)	No. 38 Bairuoxi Road Taiping Street Wenling, Zhejiang Province PRC	Chinese
Mr. Guo Dingwen (郭定文)	Room 1504, Unit 2, Building 1 Oriental Garden No. 462-2 Nanping Road Taiping Street Wenling, Zhejiang Province PRC	Chinese
Independent Non-executive Directors		
Mr. Zheng Jianzhuang (鄭健壯)	Room 101, Unit 1, Building 39 Zuoan Garden Yongqing Road Hangzhou, Zhejiang Province PRC	Chinese
Ms. Hou Meiwen (侯美文)	Room 1701, Building 19 Dongfang Fudi Gongshu District Hangzhou, Zhejiang Province PRC	Chinese
Mr. Li Wai Chung (李偉忠)	55/F, Flat C, Tower 3 The Palazzo 28 Lok King Street Sha Tin Hong Kong	Chinese

Name	Residential Address	Nationality
Ms. Lin Suyan (林素燕)	Room 10-1-1802 Huajiachi Apartment Intersection of Kaixuan Road and Genshan West Road Huajiachi Community Kaixuan Street Jianggan District Hangzhou, Zhejiang Province PRC	Chinese
Mr. Wang Yongyue (王永躍)	Room 202, Unit 1, Building 49 Zhongqing Jinsha Xuefu Hangzhou, Zhejiang Province PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Ms. Lin Ying (林穎)	Room 1102, Building 1 Xincheng Tianyuan Business Plaza Jindai Road Yingchun Community Xicheng Street Huangyan District Taizhou, Zhejiang Province PRC	Chinese
Mr. Lu Huaping (盧華平)	Room 901, Unit 2, Building 3 Kangzhuyuan Tokyo Bay Small Community Zhijing Street Dongping Community Jiazhi Street Taizhou Economic Development Zone Taizhou, Zhejiang Province PRC	Chinese
Mr. Yu Changcheng (於倡鋮)	Room 905, Building 11 Baiyunshan Mingyuan Yihao Jiaojiang District Taizhou, Zhejiang Province PRC	Chinese

Name	Residential Address	Nationality
Mr. Chen Guojun (陳國軍)	Room 401, Unit 1, Building 35 Yingchun Small Community Xicheng Street Huangyan District Taizhou, Zhejiang Province PRC	Chinese
Mr. Zheng Jing (鄭晶)	Room 301, Unit 1, Building 37 Blue Danube Small Community Labor South Road Waizhou Community Dongcheng Street Huangyan District Taizhou, Zhejiang Province PRC	Chinese

Please refer to "Directors, Supervisors and senior management" in this prospectus for further information on our Directors and Supervisors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**Sinolink Securities (Hong Kong) Company Limited** Units 2505-06, 25/F Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Sole Global Coordinator	**Innovax Securities Limited** Unit A-C, 20/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong
Joint Bookrunners and Joint Lead Managers	**Innovax Securities Limited** Unit A-C, 20/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong **China Everbright Securities (HK) Limited** 24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

Legal advisers to our Company	*As to Hong Kong law:* **Jingtian & Gongcheng LLP** Suites 3205-3207, 32/F Edinburgh Tower, The Landmark 15 Queen's Road Central Hong Kong *As to PRC law:* **Jingtian & Gongcheng** 34/F, Tower 3 China Central Place 77 Jianguo Road Chaoyang District Beijing 100025 PRC
Legal advisers to the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers and the Underwriters	*As to Hong Kong law:* **Watson Farley & Williams LLP** Suites 4610-19 Jardine House 1 Connaught Place Hong Kong *As to PRC law:* **Tian Yuan Law Firm** 10/F, China Pacific Insurance Plaza B No. 28 Fengsheng Lane Xicheng District Beijing 100032 PRC
Auditor and reporting accountant	**Ernst & Young** *Certified Public Accountants* 22/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Industry consultant	**Frost & Sullivan** Room 1014-1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai

Compliance adviser	**Sinolink Securities (Hong Kong) Company Limited** Units 2505-06, 25/F Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Internal control consultant	**AVISTA PRO-WIS Risk Advisory Limited** 23rd Floor, Siu On Centre No. 188 Lockhart Road Wanchai Hong Kong
Receiving bank	**CMB Wing Lung Bank Limited** 45 Des Voeux Road Central Hong Kong

Registered office and principal place of business in China	No. 308 Yin Quan Road Xicheng Street Huangyan District Taizhou, Zhejiang Province PRC
Principal place of business in Hong Kong	14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Yan Chuanhua 105#, No.79 South Junyuan Xijin Yuyuan Jiaojiang District Taizhou, Zhejiang Province PRC Ms. Siu Pui Wah 14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Joint company secretaries	Ms. Chen Liying Room 1402, Unit 2, Building 12 Ziwei Garden Jiaojiang District Taizhou, Zhejiang Province PRC Ms. Siu Pui Wah *(HKICPA)* 14/F., Golden Centre 188 Des Voeux Road Central Hong Kong
Company's website	**www.zjtzwater.com** *(Information contained on this website does not form part of this prospectus)*
Audit Committee	Mr. Li Wai Chung *(Chairman)* Ms. Hou Meiwen Mr. Wang Haiping
Remuneration Committee	Mr. Wang Yongyue *(Chairman)* Mr. Yan Chuanhua Mr. Zhang Junzhou Ms. Lin Suyan Mr. Zheng Jianzhuang

Nomination Committee	Mr. Yan Chuanhua *(Chairman)* Mr. Zheng Jianzhuang Ms. Lin Suyan Ms. Hou Meiwen Ms. Wang Yongyue Mr. Yu Yangbin Mr. Yang Yide
Strategy Committee	Mr. Yan Chuanhua *(Chairman)* Mr. Zhang Junzhou Mr. Zheng Jianzhuang Ms. FangYa Mr. Ye Jianhua Mr. Wang Haibo Ms. Huang Yuyan
H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal bankers	**Agricultural Bank of China, Taizhou Branch** No. 529 Shifu Road Taizhou, Zhejiang Province PRC **China Bank of Construction, Taizhou Huangyan Branch** No. 209, Tianchang North Road Huangyan District Taizhou, Zhejiang Province PRC **Industrial and Commercial Bank of China, Taizhou Huangyan Branch** No. 122, Qingnian East Road Huangyan District Taizhou, Zhejiang Province PRC

Bank of China, Taizhou Luqiao District Branch
No. 39-53 Nanguan Road
Luqiao South
Taizhou, Zhejiang Province
PRC

Taizhou Bank
No. 92 Nanguan Road
Luqiao District
Taizhou, Zhejiang Province
PRC

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in us. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers, the Underwriter(s) or any other party or affiliate involved in the Global Offering and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of municipal water supply and raw water supply market in China, Zhejiang Province and Taizhou. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included primary interviews and secondary research. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from PRC government departments, and market research on industry and enterprise player information issued by our chief competitors.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China, Zhejiang and Taizhou's economy is likely to maintain steady growth over the period from 2019 to 2023 (the "**forecast period**"); (ii) China, Zhejiang and Taizhou's social, economic and political environment is likely to remain stable in the forecast period; and (iii) key market drivers such as rising urbanisation, growing private sector investment and funding, strong and sustained policy support and tap water tariff reform are likely to drive the growth of both municipal water supply and raw water supply industry.

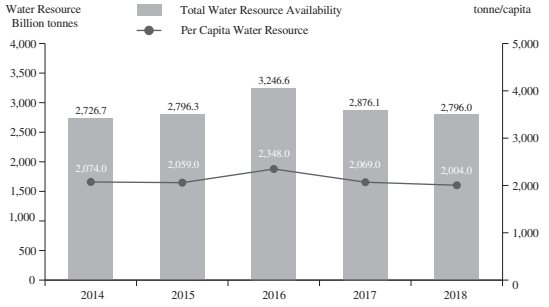
Founded in 1961, Frost & Sullivan has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. It offers technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. We are contracted to pay a fee of RMB420,000 to Frost & Sullivan in connection with its preparation of the Frost & Sullivan Report. We have extracted certain information and statistics from the Frost & Sullivan Report in this section, as well as in "Summary", "Risk factors", "Business" and "Financial information" and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industry in which we operate.

OVERVIEW OF RAW WATER AND MUNICIPAL WATER SUPPLY INDUSTRY

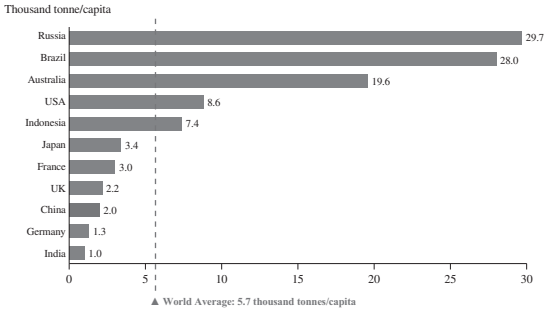
Water resources in China

According to the Frost & Sullivan Report, despite having massive volume of water resource at around 2,796.0 billion tonnes in 2018, China is one of the most water deficient countries in the world. Per capita water resource of China was 2,004.0 tonnes in 2018, which was only approximately one third of global average.

Water Resource Availability (China), 2014-2018



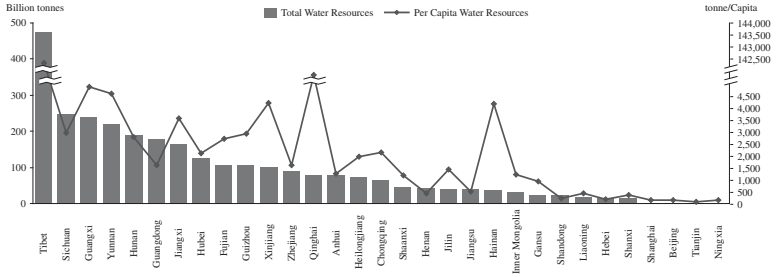
Per Capita Water Resources Comparison, 2018



Source: the Frost & Sullivan Report, National Bureau of Statistics of China and World Bank

China's water resources are unevenly distributed. Generally, water resources are more abundant in South West China and South China. According to the definition of United Nations Statistic Bureau, if the per capita water resource in an area is less than 500 tonnes per year, the area is defined as extreme water scarcity area. Around one third of the provinces in China are suffering extreme water scarcity.

Total and Per Capita Water Resource of 31 Provinces and Cities (China), 2017



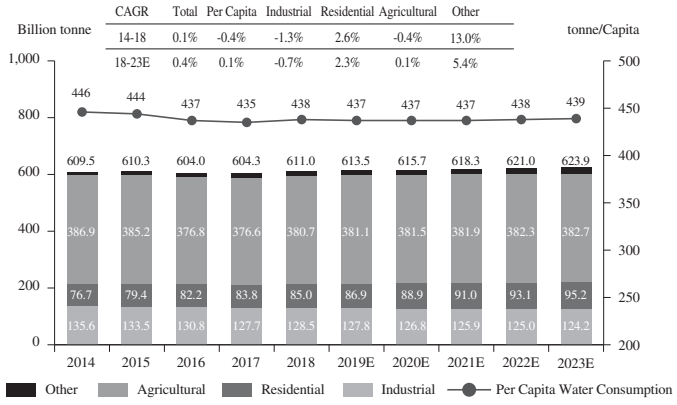
Note: data of 2018 is not available until December 2019

Source: National Bureau of Statistics of China, the Frost & Sullivan Report

Water consumption in China

Between 2014 to 2018, the total water consumption volume and per capita water consumption in China fluctuated. However, the residential water consumption has been increasing during the same period, and is expected to keep growing, which will lead to an increase in the total water consumption during the forecast period. The contradiction between the limited water resources, in particular the extremely low per capita water resources, and continuous increasing water consumption become increasingly conspicuous in China.

Total Water Consumption and Per Capita Water Consumption (China), 2014-2023E



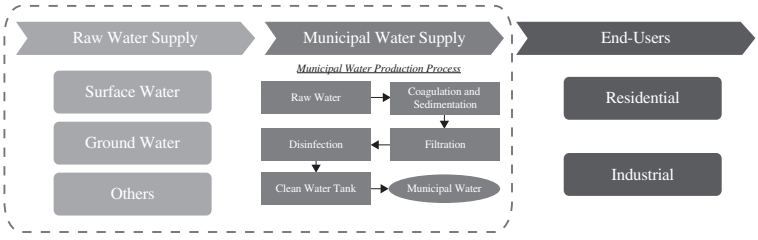
Note: Other refers to the water consumption on ecological water compensation

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

Value chain of raw water and municipal water supply industry

According to the Frost & Sullivan Report, the value chain of China's municipal water supply industry primarily consists of two key components: (i) supply of raw water; and (ii) production and supply of municipal water and tap water.

Value China Mapping for Municipal Water and Raw Water Supply Industry (China)



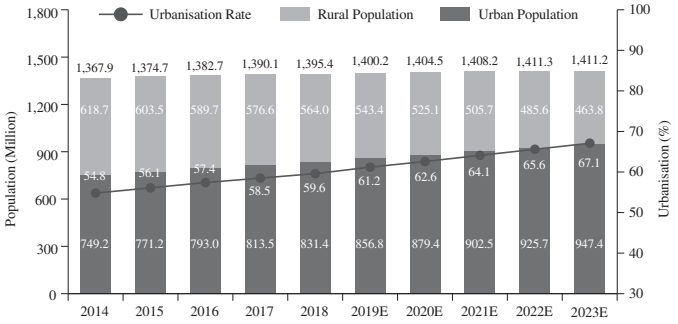
Source: the Frost & Sullivan Report

Raw water supply market is in the very upstream of the industry value chain. Raw water can be sourced from surface water, ground water and other sources. Surface water constitutes the largest water supply volume in China according to the Water Resource Bulletin of China. Most of municipal water factories sourced raw water as raw material for source production by ways of water storage, water diversion and water lifting. The municipal water supply locates in the midstream of the industry value chain. In the typical process of municipal water production, raw water is pumped into the treatment plant and goes through coagulation and sedimentation, filtration and disinfection, and then is stored in a clean water tank before distribution to end- users.

Market drivers of raw water and municipal water supply market

- ***Rising urbanisation rate along with the economic growth:*** water consumption is mainly driven by the development of China's macro economy, especially the rising urbanisation rate. Well-established infrastructure systems such as water supply facilities are necessary for an urbanised region. Going forward, the urbanisation rate in China is expected to increase from 59.6% in 2018 to 67.1% in 2023. With the accelerating urbanisation process, the demand for raw water and municipal water supply services is expected to sustain growth in the forecast period.

Population and Urbanisation (China), 2014-2023E



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

- ***Growing private sector investment and funding:*** since 2014, the PRC Government has introduced an official definition of Public-Private-Partnership ("**PPP**") and a series of laws and policies were formulated to promote the PPP model in water supply and treatment industry. In 2016, the NDRC issued Opinion on Further Encouraging and Guiding Private Capital into Water Supply, City Gas, City Heat Supply, Wastewater Treatment and Solid Waste Treatment Industry (《關於進一步鼓勵和引導民間資本進入城市供水、燃氣、供熱、污水和垃圾處理行業的意見》), in which stipulated detailed favorable actions to further attract private capital into industries including municipal water and raw water supply industry. One of the main incentives of the PPP promotion is to introduce more private investment and capitals to enter the water supply under the PPP model, thus is expected to drive the future development of China's water supply industry.

- ***Strong policy support:*** as a core part of China's public service and environmental industry, China's water industry has enjoyed strong and sustained policy support. Chinese government has enacted a series of incentive policies such as the 13th FYP on National Municipal Infrastructure Construction (《全國城市市政基礎設施建設"十三五"規劃》) to support the development of municipal water and raw water supply market. In 2018, Zhejiang provincial government announced the Action Plan for Zhejiang Greater Bay Area Construction (《浙江省大灣區建設行動計劃》) to greatly develop the economy zone covering Hangzhou, Ningbo, Wenzhou, Huzhou, Jiaxing, Shaoxing, Zhoushan and Taizhou. The expected construction and economy growth in such areas will significantly drive the development of municipal water and raw water supply market to fulfill the water consumption as population increases. Following the action plan, Taizhou government issued Action Plan for the

Construction of Taizhou Bay Area Economic Development Pilot Area (《台州灣區經濟發展試驗區建設行動計劃》) and the Industrial Development Plan for Taizhou Bay Area (《台州灣區產業發展規劃》) to further promote the development of greater bay area in Taizhou, which in turn improve infrastructure systems and total water demand in Taizhou.

- ***Tap water tariff reform:*** currently, water tariff in China still remains at low level comparing to many developed countries such U.S. Thus, China's water tariff still has plenty room for improvement in the future. According to the Opinion on Accelerating the Establishment of Municipal Tiered Tap Water Tariffs System (《關於加快建立完善城鎮居民用水階梯價格制度的指導意見》) issued by NDRC and MOHURD in 2013, implementation of tiered tap water tariffs is encouraged. Tiered tap water tariff is a kind of charging mode of water tariff that different levels of charge rates are applied based on the water consumption volume of the end-users. By adopting such water tariff system, tap water tariff is expected to have a sustained rise in the coming years, which is expected to improve profitability of water supply companies and drive the development of China's municipal water and raw water supply industry.

Major entry barriers to the raw water and municipal water supply market

- ***Government authorisation:*** obtaining relevant approvals and authorisations, such as Water Intake Permit and other relevant construction permit of infrastructure projects, from local government authorities are necessary prerequisite for entry into the operation of raw water and municipal water supply industry. In order to ensure the safety of water supply and avoid unnecessary repeated construction of municipal facilities, authorisation for water supply in a certain region is also usually exclusive and long-term in China, which prevents the entry of other players.

- ***Operation capability and qualification:*** constructions of raw water supply engineering and municipal water supply have to meet strict requirements to ensure stable and safe water supply, which demands operator to equip with strong capability in operation. Local government prefers companies with necessary qualifications and proved past performance, which need to be accumulated over a long period. Therefore, new entrants are less competitive than existing players.

- ***Capital requirement:*** raw water and municipal water supply projects, involving the construction of pipelines, water treatment plants and related ancillary facilities, are capital intensive with long payback periods. In addition, the construction of water supply network infrastructures and related facilities generally require substantial amount of capital investment with a breakeven period of more than 10 years.

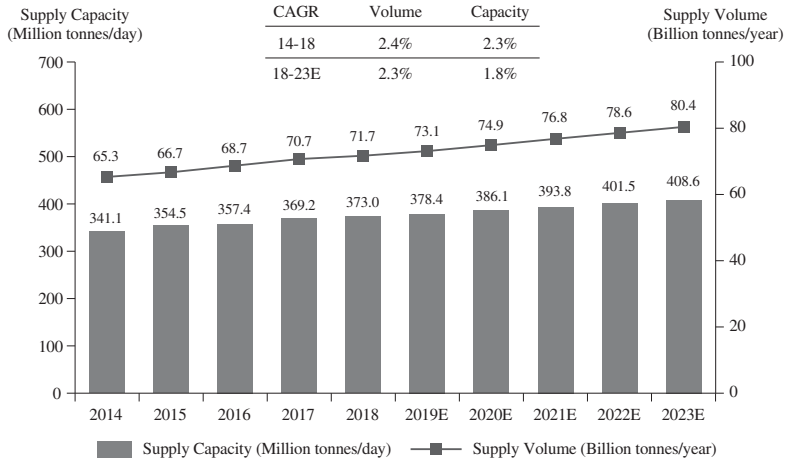
- ***Geographical limitation:*** local government has strong influence on the development of local raw water and municipal water supply industry. Relevant approvals and authorisations, such as water intake right and construction permit of engineering project are exclusive and the incumbent is generally favored for the renewal of the contract which can bar new participants from expanding into a new region.

MUNICIPAL WATER SUPPLY INDUSTRY

Municipal water supply industry in China

Municipal water supply capacity in China increased from 341.1 million tonnes per day in 2014 to 373.0 million tonnes per day in 2018 with a CAGR of 2.3%, and the annual supply volume increased from 65.3 billion tonnes to 71.7 billion tonnes during the same period with a CAGR of 2.4%. Due to the continuous urbanisation and construction of water treatment plants and facilities, especially in county-level regions, the national municipal water supply capacity and volume are expected to keep growing at a moderate pace of 1.8% and 2.3%, respectively, in the forecast period, reaching 408.6 million tonnes per day and 80.4 billion tonnes in 2023, respectively.

Municipal Water Supply Capacity and Supply Volume (China), 2014-2023E

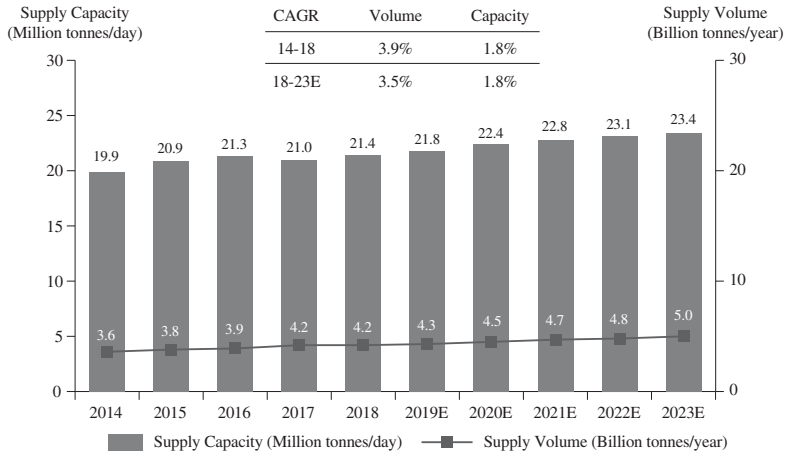


Source: the Frost & Sullivan Report and MOHURD

Municipal water supply industry in Zhejiang Province

Municipal water supply capacity in Zhejiang Province increased from 19.9 million tonnes per day in 2014 to 21.4 million tonnes per day in 2018 with a CAGR of 1.8%, and the annual supply volume increased from 3.6 billion tonnes to 4.2 billion tonnes during the same period with a CAGR of 3.9%. Frost & Sullivan expects the municipal water supply capacity and volume in Zhejiang Province will maintain stable growth at a moderate pace of 1.8% and 3.5% respectively during the forecast period, reaching 23.4 million tonnes per day and 5.0 billion tonnes per year, respectively, in 2023.

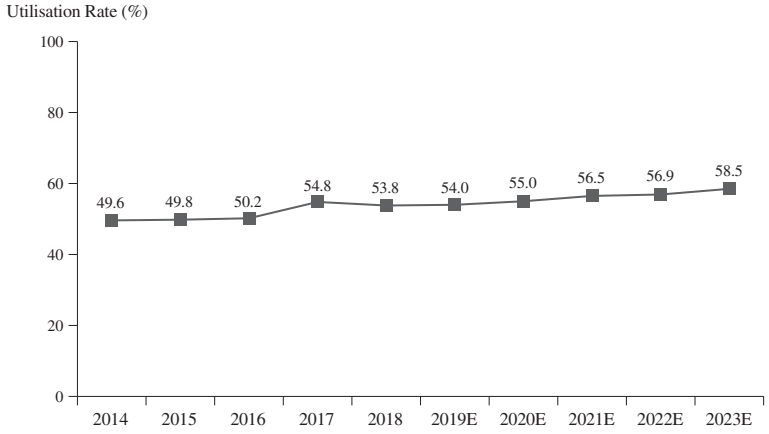
Municipal Water Supply Capacity and Supply Volume (Zhejiang Province), 2014-2023E



Source: the Frost & Sullivan Report and MOHURD

From 2014 to 2018, the utilisation rate of municipal water supply in Zhejiang Province has increased from 49.6% to 53.8%. Going forward, the utilisation rate of municipal water supply in Zhejiang Province is expected to gradually increase, reaching 58.5% in 2023.

Utilisation Rate of Municipal Water Supply (Zhejiang Province), 2014-2023E



Source: the Frost & Sullivan Report

History and Development of Water Supply Industry in Taizhou

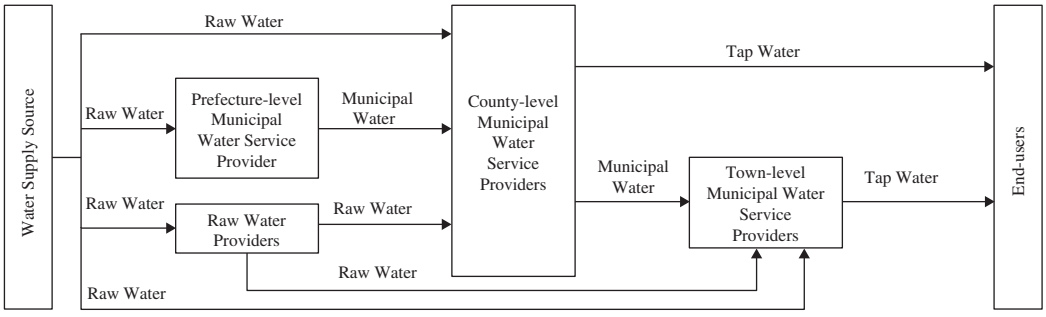
Before the establishment of Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) in June 1999, regional municipal water service providers in county-level cities, counties and towns in Taizhou Region, the predecessor of Taizhou City, had existed for decades. Such municipal water service providers generally sourced raw water from nearby rivers, small-to-medium size reservoirs and ground to meet their respective local water demand. Except for supplying tap water to the end-users, the county-level municipal water service providers also supply municipal water to the town-level municipal water service providers through the pipeline networks between them. There was no prefecture-level water supply system in Taizhou Region until the construction of the Taizhou Water Supply System (Phase I). In August 1994, the State Council of the PRC approved the revocation of Taizhou Region and the establishment of Taizhou City.

Along with the economic development of Taizhou Region, the water resource issues such as the sinking ground water level and the surface water pollution caused by massive pumping volume and rapid industrial development were raised. In order to meet the increasing water demand in the South Area of Taizhou and deal with the aforesaid water resource issues, the construction of the Taizhou Water Supply System (Phase I) commenced in 1993 and trial operation took place in 1995. Through the operation and management of the Taizhou Water Supply System (Phase I), Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) serves as the raw water provider for the county-level municipal water service providers in the South Area of Taizhou, which then produce municipal water to end-users and town-level municipal water service providers.

The construction of the Taizhou Water Supply System (Phase II) was commenced in 2004 as the Taizhou Water Supply System (Phase I) was approaching its maximum water supply capacity. In addition to supplying raw water to municipal water service providers by drawing raw water from Changtan Reservoir, Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) has started to supply municipal water to county-level municipal water service providers in the South Area of Taizhou through its operation of Taizhou Water Treatment Plant after the completion of the Taizhou Water Supply System (Phase II).

With the promotion of the "Integration of urban and rural water supply (城鄉供水一體化)" in Taizhou, the water pipelines in towns is expected to be further constructed and connected to the county-level pipelines. Accordingly, the number of town-level municipal water service providers in Taizhou is demonstrating a downward trend and expected to be further merged by county-level municipal water service providers in the future.

Value Chain of Water Supply Industry (Taizhou)



Note: As most of the pipelines connecting the county-level municipal water service providers and town-level municipal water service providers have existed before the construction of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), the prefecture-level municipal water service provider (i.e. Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司)), which is also a raw water provider, generally supplies raw water and municipal water to the county-level municipal water service providers instead of directly to the town-level municipal water service providers. The similar circumstances in the water supply market (i.e. multiple layers of market players before reaching end-users) also exist in other cities in Zhejiang Province such as Shaoxing City and Wenzhou City.

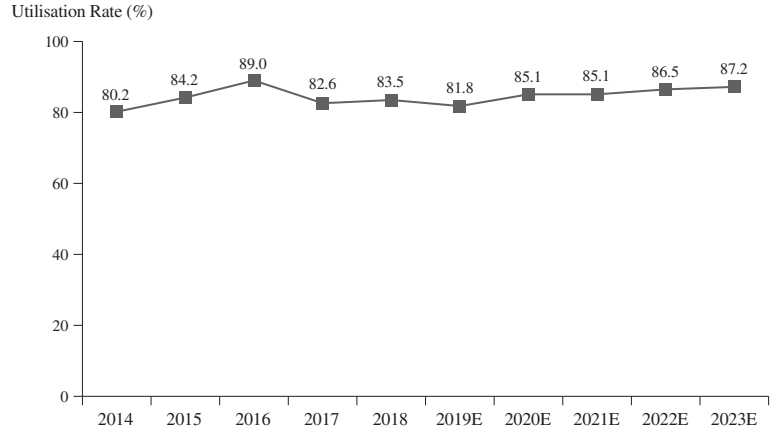
Municipal water supply industry in Taizhou

Taizhou is a prefecture-level city in Zhejiang Province with an area of approximately 9,411 km^2. Taizhou is a regional central city and a modern port city located in the central coastal region of Zhejiang Province. Taizhou currently has three districts, three county-level cities and three counties with a total population of approximately 6.1 million by the end of 2018. In November 2015, Taizhou was listed as one of the pilot areas in the Second Batch of Comprehensive Pilot Areas of New Urbanization (第二批國家新型城鎮化綜合試點地區) released by the NDRC. In April 2016, Taizhou joined the Sino-German Industrial City Alliance (中德工業城市聯盟). In November 2017, Taizhou was honored as the National Civilized City (全國文明城市) by the Spiritual Civilization Development Steering Commission of PRC central government. In December 2018, Taizhou was awarded as one of the Best 30 Prefecture-level City in Mainland China (中國大陸最佳地級城市30強) issued by Forbes. In 2018, Taizhou recorded a GDP of approximately RMB487.5 billion.

Municipal water supply capacity in Taizhou increased from 946.7 thousand tonnes per day in 2014 to 1,098.2 thousand tonnes per day in 2018 with a CAGR of 3.8%, and the annual supply volume increased from 277.2 million tonnes to 334.9 million tonnes during the same period with a CAGR of 4.8%.

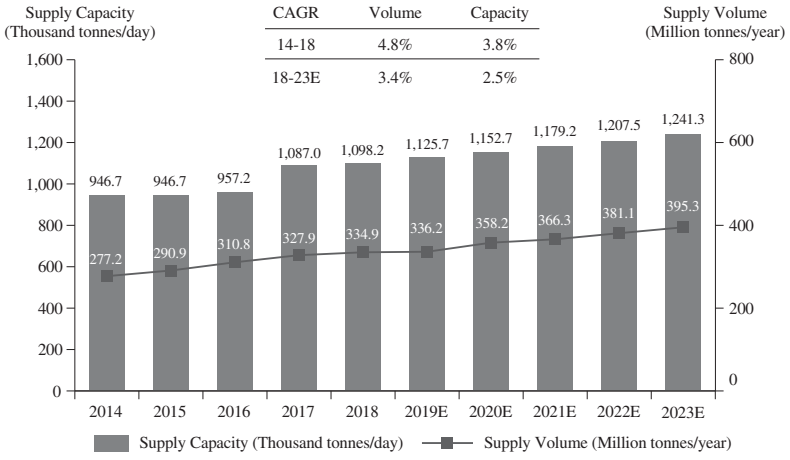
Generally, the utilisation rate of municipal water supply in Taizhou is higher than that of municipal water supply in Zhejiang Province. The utilisation rate of municipal water supply in Taizhou has increased from 80.2% to 83.5% from 2014 to 2018. Going forward, the utilisaiton rate of municipal water supply in Taizhou is expected to reach 87.2% in 2023.

Utilisation Rate of Municipal Water Supply (Taizhou), 2014-2023E



Source: the Frost & Sullivan Report

Municipal Water Supply Capacity and Supply Volume (Taizhou), 2014-2023E

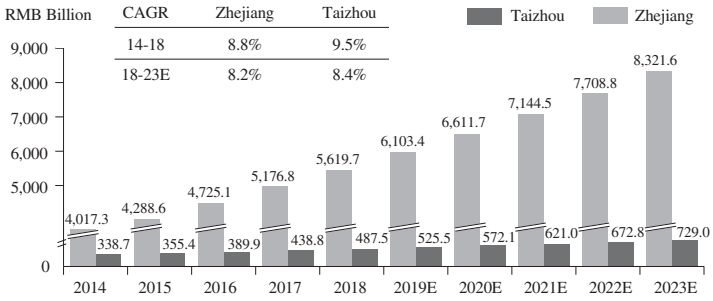


Source: the Frost & Sullivan Report and MOHURD

Based on the Frost & Sullivan Report, the water supply capacity and volume of Taizhou is expected to reach 1,241.3 thousand tonnes per day and 395.3 million tonnes per year, respectively, in 2023, representing a CAGR of 2.5% and 3.4% respectively, in the forecast period, due to the following:

- according to the Frost & Sullivan Report, the nominal GDP of Taizhou increased to RMB487.5 billion in 2018 from RMB338.7 billion in 2014, representing a CAGR of 9.5%, which is higher than that of Zhejiang Province of 8.8% during the same period. It is estimated that the nominal GDP of Taizhou is likely to maintain solid growth pace in the forecast period with a CAGR of 8.4%. The growth will be mainly attributed to the supportive polices by the local government. Taizhou is now vigorously promoting the economic development of Taizhou Bay Area according to the Taizhou Bay Area Economic Development Pilot Area Construction Action Plan (《台州灣區經濟發展試驗區建設行動計劃》) and the Industrial Development Plan of Taizhou Bay Area (《台州灣區產業發展規劃》), which would be a key driver for the future solid development of Taizhou's economy. In addition, Taizhou government issued the 13th Five-Year Plan for Major Construction Projects of Taizhou (《台州市重大建設項目"十三五"規劃》) ("**Plan**") in 2016 to further stimulate the economic development of Taizhou by promoting major construction projects in related to innovation development, industrial transformation, transportation infrastructure, ecological environment and public services. According to the Plan, Taizhou government plans to construct over 1,000 projects with total investment of RMB2,269.7 billion, of which RMB1,124 billion is expected to be invested by 2020.

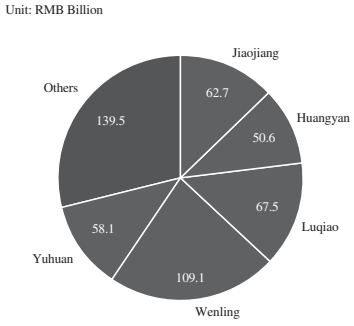
Nominal GDP (Zhejiang and Taizhou), 2014-2023E



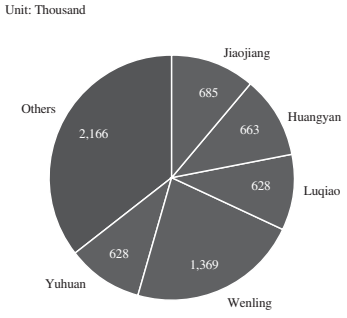
Source: the Frost & Sullivan Report and Statistics Bureau of Zhejiang and Taizhou

In 2018, over 70% nominal GDP of Taizhou was attributed by the South Area of Taizhou, which includes Jiaojiang District, Huangyan District, Luqiao District, Wenling City and Yuhuan City, the aggregated population of which accounts for 64.7% of the total population of Taizhou.

Share of Nominal GDP (Taizhou), 2018



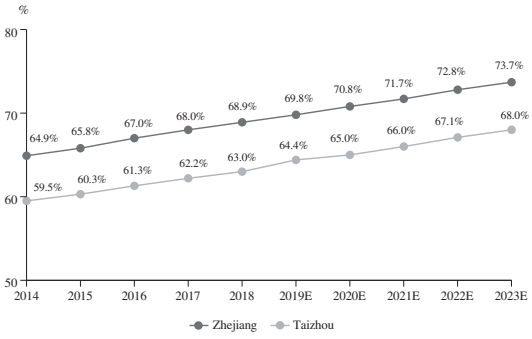
Share of Population (Taizhou), 2018



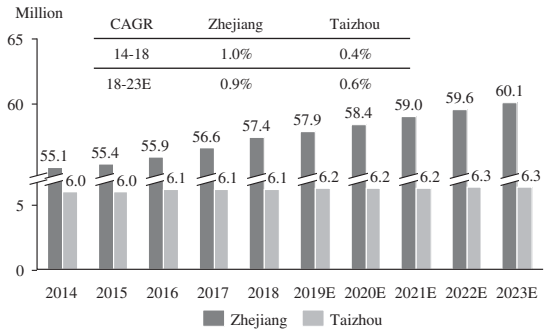
Source: the Frost &Sullivan Report and Statistics Bureau of Taizhou

- the urbanisation rate of Taizhou reached 63.0% in 2018, which was lower than that of Zhejiang Province of 68.9%, indicating the growth potential in urbanisation in Taizhou. According to the Frost & Sullivan Report, the urbanisation rate of Taizhou is expected to increase to 68% in 2023. In addition, Taizhou's population was approximately 6.1 million in 2018 and ranked fourth in Zhejiang Province. According to the Frost & Sullivan Report, the population of Taizhou is forecasted to reach 6.3 million in 2023 with a CAGR of 0.6% from 2018 to 2023. Hence, the demand of water supply in Taizhou is expected to increase alongside the urbanisation process and projected population growth.

Urbanization Rate (Zhejiang and Taizhou), 2014-2023E



Population (Zhejiang and Taizhou), 2014-2023E



Source: the Frost & Sullivan Report and Statistics Bureau of Zhejiang and Taizhou

- municipal water supply industry in Taizhou also benefits from the government policies which are likely to attract more investment in public infrastructures, such as water supply facilities, networks, water diversion works, etc. For instance, (a) the Zhejiang provincial government issued Action Plan for Rural Drinking Water Standard Promotion in Zhejiang Province (2018-2020) (《浙江省農村飲用水達標提標行動計劃(2018-2020)》) in December 2018, intending to finish the promotion of rural drinking water standard that cover around 8.03 million rural residents in Zhejiang Province by constructing or upgrading raw water supply facilities, municipal water supply facilities as well as water supply networks in rural area; (b) in May 2018, the Zhejiang provincial government issued Action Plan for Zhejiang Greater Bay Area Construction (《浙江省大灣區建設行動計劃》), the plan aims to develop the bay area of Zhejiang Province as an economy cluster covering Hangzhou, Ningbo, Wenzhou, Huzhou, Jiaxing, Shaoxing, Zhoushan and Taizhou. The plan also indicates to accelerate the municipal infrastructure construction including water supply and discharge facilities; (c) in December 2018, the Taizhou government issued Action Plan for the Construction of Taizhou Bay Area Economic Development Pilot Area (《台州灣區經濟發展試驗區建設行動計劃》) and the Industrial Development Plan for Taizhou Bay Area (《台州灣區產業發展規劃》), which aim to promote the construction of greater bay area in Taizhou by strengthening the construction of relevant municipal infrastructures including municipal water supply facilities; and (d) Taizhou Environmental Protection Bureau issued Taizhou City Drinking Water Source Protection Plan (2016-2020) (《台州市飲用水水源保護規劃(2016年-2020年)》) and aims to achieve 100% compliance rate of water source quality by 2020.

Competitive landscape of municipal water supply industry in Zhejiang Province and Taizhou

Due to the scattered geographical distribution of water resources and city administrative division of Zhejiang Province, there are approximately a hundred of companies in Zhejiang's municipal water supply market that provide water supply service. As most players in Zhejiang Province supply water in local areas, there is no large provincial players leading the market. In such case, the market is relatively fragmented with three participants together taking over 24.0% market share with a municipal water supply capacity of 5.19 million tonnes per day in 2018. Taizhou's municipal water supply market is highly concentrated with top three players together taking approximately 85.9% market share in terms of municipal water supply

capacity in 2018. Our Group took 1.8% market share in Zhejiang Province's municipal water supply market and ranked first in Taizhou in terms of municipal water supply capacity in 2018.

Top 3 Municipal Water Supply Companies by Municipal Water Supply Capacity (Zhejiang Province), 2018

Ranking	Company	Municipal Water Supply Capacity (Million Tonnes/day)	Share %
1	Company A	1.97	9.2%
2	Company B	1.72	8.0%
3	Company C	1.50	7.0%
Top 3		5.19	24.2%
Others		16.21	75.8%
Total		21.40	100.0%

Top 3 Municipal Water Supply Companies by Municipal Water Supply Capacity (Taizhou), 2018

Ranking	Company	Municipal Water Supply Capacity (Thousand Tonnes/day)	Share %
1	Our Group	386.0	35.1%
2	Company D	307.0	28.0%
3	Company E	250.0	22.8%
Top 3		943.0	85.9%
Others		155.2	14.1%
Total		1,098.2	100.0%

Source: the Frost & Sullivan Report

Note: Company A is a state-owned enterprise established in 2011, headquartered in Hangzhou; Company B is a state-owned enterprise established in 1985, headquartered in Beijing; Company C is a state-owned enterprise established in 2013, headquartered in Ningbo; Company D is a state-owned company established in 2008, headquartered in Linhai; Company E is a state-owned company established in 2012, headquartered in Tiantai County.

In the tap water supply market, our Group took 0.1% and 2.7% market share with a tap water supply capacity of 20 thousand tonnes per day in Zhejiang and Taizhou respectively in 2018.

Competitive landscape of tap water supply industry in Zhejiang and Taizhou, 2018

Top 3 Tap Water Supply Companies by Tap Water Supply Capacity (Zhejiang), 2018

Ranking	Company	Tap Water Supply Capacity (Million Tonnes/day)	Share %
1	Company A	1.81	9.5%
2	Company B	1.72	9.1%
3	Company C	1.50	7.9%
Top 3		5.03	26.5%
Others		13.97	73.5%
Total		19.00	100.0%

Top 3 Tap Water Supply Companies by Tap Water Supply Capacity (Taizhou), 2018

Ranking	Company	Tap Water Supply Capacity (Thousand Tonnes/day)	Share %
1	Company D	307.0	41.9%
2	Company E	250.0	34.1%
3	Company I	125.0	17.1%
Top 3		682.0	93.1%
Others		50.2	6.9%
Total		732.2	100.0%

Note: Company I is a state-owned enterprise established in 1989, headquartered in Huangyan District of Taizhou.

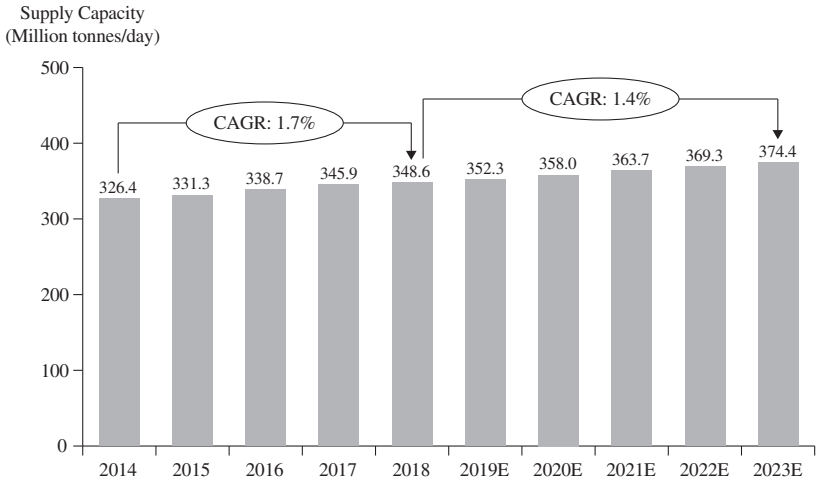
Source: the Frost & Sullivan Report

RAW WATER SUPPLY INDUSTRY

Raw water supply in China

As the direct raw material for producing municipal water, China's raw water supply capacity also witnessed a stable growth pace from 2014 to 2018 along with the increasing municipal water supply. Total raw water supply capacity in China increased from 326.4 million tonnes per day in 2014 to 348.6 million tonnes per day in 2018, representing a CAGR of 1.7%. According to the Frost & Sullivan Report, China's raw water supply capacity is expected to grow a CAGR of 1.4% in the forecast period, reaching 374.4 million tonnes per day in 2023.

Raw Water Supply Capacity (China), 2014-2023E

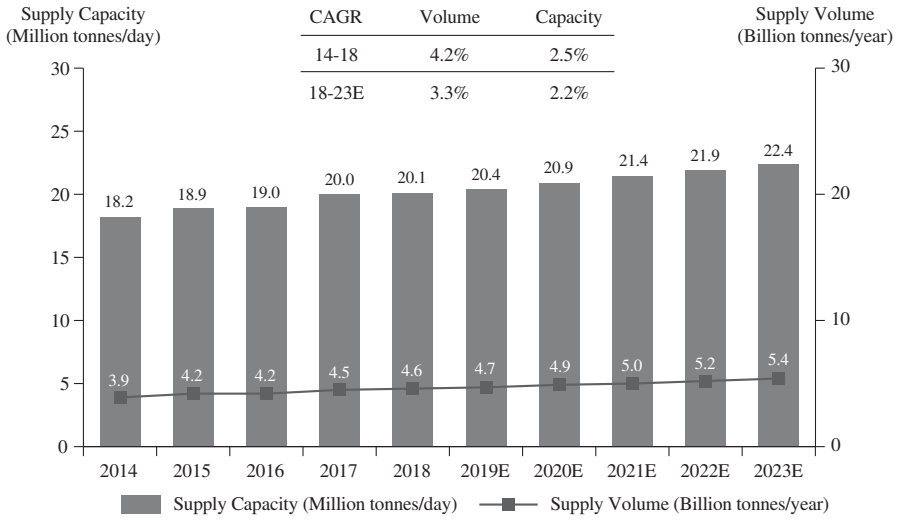


Source: the Frost & Sullivan Report

Raw water supply in Zhejiang Province

Comparing with China's raw water supply, Zhejiang's raw water supply capacity grew at a higher growth pace. From 2014 to 2018, Zhejiang's raw water supply capacity increased from 18.2 million tonnes per day to 20.1 million tonnes per day with a CAGR of 2.5%. Considering the accelerating urbanisation process and favorable policy on economic development and rural water supply, the raw water supply capacity in Zhejiang is expected to reach 22.4 million tonnes per day in 2023 with a CAGR of 2.2% in the forecast period. As the direct raw material of municipal water, the raw water supply volume generally displayed a similar trend with the municipal supply volume. In 2018, the raw water supply volume in Zhejiang Province was 4.6 billion tonnes. Going forward, the raw water supply volume in Zhejiang Province is expected to reach 5.4 billion tonnes in 2023.

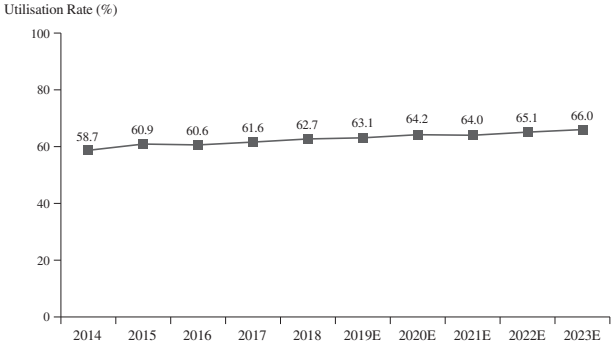
Raw Water Supply Capacity and Supply Volume (Zhejiang Province), 2014-2023E



Source: the Frost & Sullivan Report

From 2014 to 2018, the utilisation rate of raw water supply in Zhejiang Province has increased from 58.7% to 62.7%. Going forward, the utilisation rate of raw water supply in Zhejiang Province is expected to gradually increase, reaching approximately 66.0% in 2023.

Utilisation Rate of Raw Water Supply (Zhejiang Province), 2014-2023E



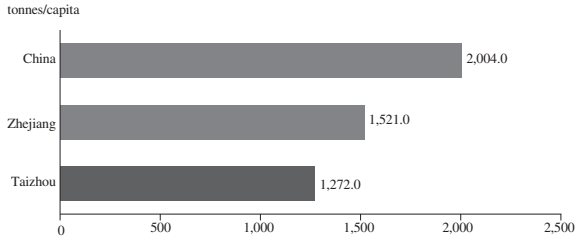
Source: the Frost & Sullivan Report

Raw water supply in Taizhou

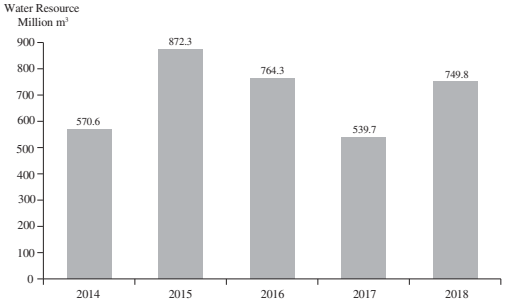
Comparing with the per capita water resource of Zhejiang Province and China, Taizhou is facing serious water scarcity issue. The per capita water resource of Taizhou was 1,272 m³ in 2018, which was more lower than those of Zhejiang Province and the national average level. The construction of water diversion works in Taizhou that intend to increase raw water supply is likely to mitigate the water scarcity issue. Major sources of raw water in Taizhou are stored water from local reservoirs. The municipal water supply companies in Taizhou do not source raw water from other areas. In Taizhou, there are 48 reservoirs supplying raw water with a total storage capacity of 1,520.6 million m³. Among them, nine large and medium size reservoirs ("Large-to-Medium Size Reservoirs"), the aggregate storage capacity of which is 1,361.3 million m^3, contribute approximately 93.7% of the total storage capacity of the 48 reservoirs. The Large-to-Medium Size Reservoirs locate in Huangyan District, Linhai City, Tiantai County, Wenling City and Sanmen County, respectively. Changtan Reservoir is the

largest reservoir in Taizhou with a total storage capacity of approximately 732.4 million m³, taking approximately 53.8% and 48.2% of the total storage capacity of the Large-to-Medium Size Reservoirs and the total 48 reservoirs, respectively. The storage volume of the Large-to-Medium Size Reservoirs fluctuated during the past five years in line with the fluctuation of the rainfall volume in Taizhou.

Per Capita Water Resource Comparison (China & Zhejiang & Taizhou), 2018



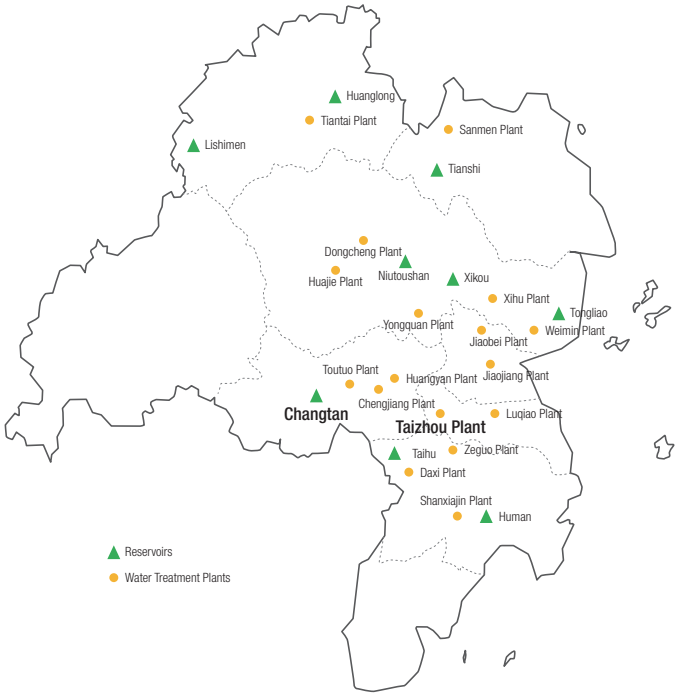
Storage Volume of Large and Medium Reservoirs (Taizhou), 2014-2018



Source: the Frost & Sullivan Report, National Bureau of Statistics of China, World Bank and Water Resource Bulletin

There are nine water supply service providers in Taizhou, which have been granted the exclusive rights to draw raw water from the Large-to-Medium Size Reservoirs, respectively, among which, our Company has been granted the exclusive right to draw raw water from Changtan Reservoir.

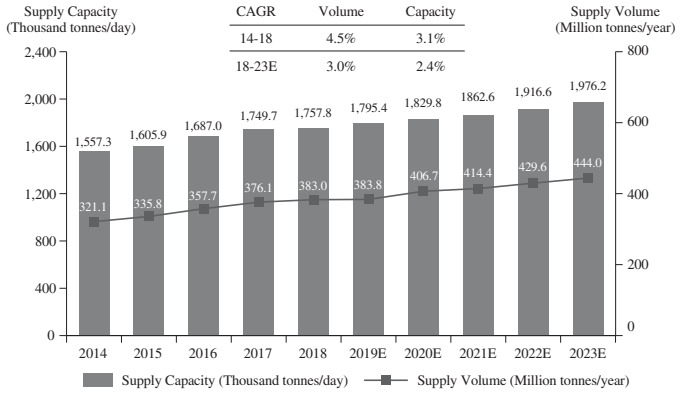
There are over 50 water treatment plants in Taizhou aggregately supplying 334.9 million tonnes municipal water in 2018. Taizhou Water Treatment Plant is the largest water treatment plant with a municipal water supply volume of 139.4 million tonnes in 2018, taking approximately 41.6% market share in Taizhou. For illustration, the map below shows the location of the Large-to-Medium Size Reservoirs and the water treatment plants which process raw water directly or indirectly from the Large-to-Medium Size Reservoirs:



Source: the Frost & Sullivan Report

From 2014 to 2018, Taizhou's raw water supply capacity has increased from 1,557.3 thousand tonnes to 1,757.8 thousand tonnes per day, representing a CAGR of 3.1%. Going forward, along with the increasing municipal water supply capacity and construction of water diversion projects in Taizhou, the raw water supply capacity in Taizhou is expected to grow at a CAGR of 2.4% in the forecast period, reaching 1,976.2 thousand tonnes per day in 2023. Along with the growth of municipal water supply volume, the raw water supply volume in Taizhou has increased from 321.1 million tonnes in 2014 to 383.0 million tonnes in 2018, realising a CAGR of 4.5%. Going forward, the raw water supply volume in Taizhou is expected to reach 444.0 million tonnes in 2023.

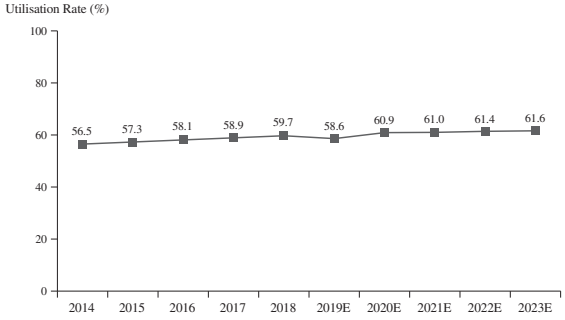
Raw Water Supply Capacity and Supply Volume (Taizhou), 2014-2023E



Source: the Frost & Sullivan Report

From 2014 to 2018, the utilisation rate of raw water supply in Taizhou has gradually increased from 56.5% to 59.7%. Going forward, the utilisation rate of raw water supply in Taizhou is expected to reach 61.6% in 2023.

Utilisation Rate of Raw Water Supply (Taizhou), 2014-2023E



Source: the Frost & Sullivan Report

The municipal water supply companies in Zhejiang Province can either source raw water from natural environment by themselves, or purchase raw water from upstream raw water supply companies. According to the Frost & Sullivan Report, our Group ranked fifth in Zhejiang Province and first in Taizhou in terms of raw water supply capacity in 2018.

Competitive landscape of raw water supply industry in Zhejiang and Taizhou

Top 5 Raw Water Supply Companies by Raw Water Supply Capacity (Zhejiang), 2018

Ranking	Company	Raw Water Supply Capacity (Million Tonnes/day)	Share %
1	Company A	2.25	11.2%
2	Company F	1.81	9.0%
3	Company G	1.00	5.0%
4	Company H	0.99	4.9%
5	Our Group	0.77	3.8%
Top 3		6.82	33.9%
Others		13.28	66.1%
Total		20.10	100.0%

Top 3 Raw Water Supply Companies by Raw Water Supply Capacity (Taizhou), 2018

Ranking	Company	Raw Water Supply Capacity (Thousand Tonnes/day)	Share %
1	Our Group	770.0	43.8%
2	Company D	482.7	27.5%
3	Company E	150.0	8.5%
Top 3		1,402.7	79.8%
Others		355.1	20.2%
Total		1,757.8	100.0%

Source: the Frost & Sullivan Report

Note: Company F is a state-owned enterprise established in 2005, headquartered in Ningbo; Company G is a state-owned enterprise established in 1997, headquartered in Shaoxing; Company H is a state-owned enterprise established in 2010, headquartered in Wenzhou.

PRICE FOR RAW MATERIALS

For municipal water supply companies, which obtain raw water for producing municipal water, key production costs include raw water procurement fee, water resources fee, electricity cost and other raw material costs such as water treatment chemical cost, etc.

The raw water procurement fees of different reservoirs in Taizhou vary as they are regulated and fixed by their respective local DRC. The raw water procurement fee of Changtan Reservoir has kept an upward trend and had two price adjustments by Taizhou DRC during the period from 2016 to 2018, and remained unchanged at RMB0.32 per tonne since 1 January 2018 to the Latest Practicable Date.

Raw Water Procurement Fees of Top Five Largest Reservoirs (Taizhou), 2014-2018

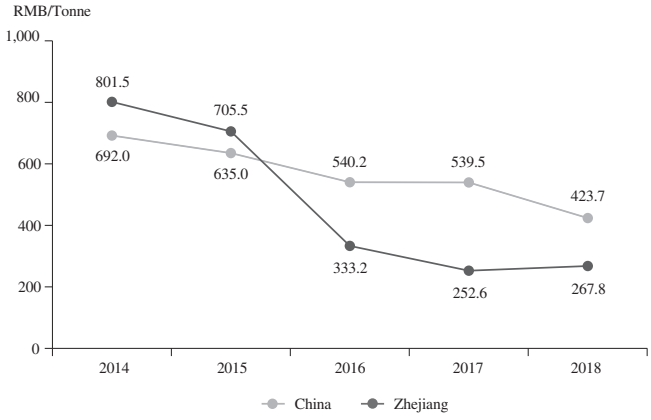
Reservoirs	Location	2014	2015	2016	2017	2018
Changtan	Huangyan District	0.14	0.14	0.22	0.22	0.32
Niutoushan	Linhai City	0.40	0.40	0.40	0.40	0.40
Lishimen	Tiantai County	0.33	0.33	0.33	0.33	0.33
Human	Wenling City	0.30	0.30	0.30	0.30	0.30
Tianshi	Sanmen County	0.30	0.30	0.30	0.30	0.30

Source: the Frost & Sullivan Report

According to "Notice on Adjusting the Classification and Collection Standards of Water Resources Fees in Zhejiang Province" (《關於調整浙江省水資源費分類和徵收標準的通知》) issued in September 2014, the water resources fee in Zhejiang Province was adjusted to RMB0.2 per tonne from RMB0.08 per tonne since 1 October 2014, and has remained unchanged since then.

Liquid chlorine is the common-used water treatment chemical for municipal water supply companies. The price of liquid chlorine in China showed a declining trend during the past five years from RMB692.0 per tonne in 2014 to RMB423.7 per tonne in 2018 mainly due to the weak downstream demand. The price of liquid chlorine in Zhejiang also showed a declining trend in the past five years decreasing from RMB801.5 per tonne in 2014 to RMB267.8 per tonne in 2018.

Price of Liquid Chlorine (China & Zhejiang), 2014-2018

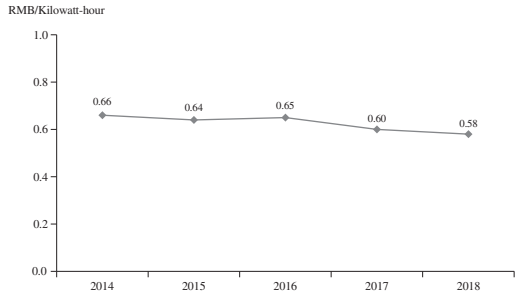


Source: the Frost & Sullivan Report

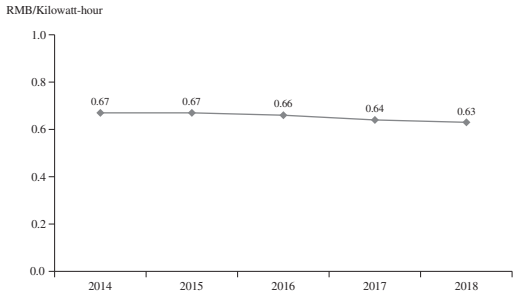
Another kind of main water treatment chemical is sodium hypochlorite. The average price of sodium hypochlorite in China hovered around RMB1,000 per tonne to RMB1,200 per tonne during the period from 2014 to 2018, whereas the average price of sodium hypochlorite in Zhejiang Province has maintained at a relatively stable level at around RMB1,200 per tonne during the past five years.

Electricity cost constitutes a large part in the overall cost for municipal water supply companies. The price of electricity is adjusted by NDRC and National Energy Administration (the "**NEA**"). Along with a series of electricity tariff reduction measures implemented by the PRC central government in order to facilitate the development of real economy industries, the average electricity price for large industrial users has shown a decline during the past three years from RMB0.65/ Kilowatt-hour in 2016 to RMB0.58/ Kilowatt-hour in 2018. The electricity price in Taizhou is adjusted by Zhejiang DRC. During the past five years, the average electricity price for large industrial users in Taizhou has also shown a decline trend, decreasing from RMB0.67/ Kilowatt-hour in 2014 to RMB0.63/ Kilowatt-hour in 2018.

Average Electricity Price for Large Industrial Users (China), 2014-2018



Average Electricity Price for Large Industrial Users (Taizhou), 2014-2018



Source: the Frost & Sullivan Report, NDRC and NEA

Fluctuation of raw material prices and electricity prices are unlikely to exert a significant influence on municipal water enterprises as local government usually adjusts the water tariff according to the fluctuation of water companies' costs.

OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC Government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations and (ii) a summary of the main laws, regulations and policies to which we are subject.

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, 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 applied 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 water supply projects must be no less than 20% of the total project investment amount. The specific proportion will be determined by the approval authority of that project when reviewing the feasibility research report, taking into consideration the project's future economic benefits, banks' willingness to grant loans and appraisal opinions.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

In accordance with the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (《關於加快市政公用行業市場化進程的意見》) promulgated and implemented by the former Ministry of Construction 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》) (hereinafter referred to as "Measures for Administration on Concession") promulgated by the former Ministry of Construction on 19 March 2004, implemented on 1 May 2004, and amended on 4 May 2015, 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 former Ministry of Construction on 10 September 2005, and the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) promulgated by the MOF, the NDRC, the Ministry of Housing and Urban-Rural Development, the Ministry of Transport, the Ministry of Water Resources and the PBOC on 25 April 2015 and implemented on 1 June 2015 (collectively referred to as the "Concession Rights Measures"), the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to municipal public utilities projects including tap water supply project. Government authorities should select investors or operators of municipal public utilities projects through public bidding according to relevant regulations and enter into concession agreements to grant concession rights with them. However, the Concession Rights Measures provide no penalty for acquisition of concession rights without adopting competitive bidding process. The Concession Rights Measures require written concession agreements to be entered into for all municipal public utilities projects prior to the commencement of a concession period. For any concession projects which fail to comply with such requirement, the Concession Rights

Measures require that rectification can be made by entering into written concession agreements in a timely manner. Moreover, according to the Concession Rights Measures, the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should organise biddings and re-select the concessionaire by relevant procedures. Under the same condition, preferential access to concession rights shall be given to the former concessionaire.

The Concession Rights Measures had regulated, among others, the access to and terms of concession rights, the qualification of enterprises applying for concession rights, main contents of concession contract, responsibility for enterprises with concession rights and changes and termination of concession rights.

It is not required explicitly and mandatorily that the grant of concession rights for public utilities projects are applicable to all public utilities projects under the Concession Rights Measures.

According to Article 7 of the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》), the departments of development and reform, finance, land and resources, environmental protection, housing and urban-rural development, transportation, water conservancy, pricing, energy, financial regulation, etc. under the local people's governments at the county level or above shall, in accordance with the division of responsibilities, be responsible for the implementation and supervision of relevant franchise projects. And according to Article 9 of the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》), the relevant industrial authority or the department authorized by the people's government at the county level or above, may, based on the needs of the economic and social development as well as suggestions proposed by the relevant legal persons and other organizations on the franchise projects, work out the implementing plans for franchise projects. It is regulated under Article 3 of 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》) that the projects subject to concession shall be determined by the provinces, autonomous regions, and municipalities directly under the central government by legal means and procedures. And it is regulated under Article 4 of 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》) that the competent departments of municipal public utilities of the people's governments of municipalities directly under the central government, cities, and counties shall, upon the authorisation of the people's government be responsible for the specific implementation of the franchising of municipal public utilities within their own administrative regions. After inspection of the public information, there are no relevant regulations on the specific implementation of public utility franchise and projects which shall be granted the concession rights issued by the relevant authorities of Zhejiang Province and Taizhou City.

It is confirmed in writing by Taizhou Housing and Urban-Rural Development Bureau (as the competent authority responsible for public utilities matters) and Taizhou Water Resources Bureau (as the competent authority responsible for water supply) on 26 September 2019 that not all public utilities are mandatorily required to adopt the franchise system under the Concession Rights Measures. At present, no relevant regulations for the implementation of the franchise management of urban water supply facilities in Taizhou City has been yet formulated, and relevant authorities have not adopted the franchise mode for the management

of urban water supply facilities. Our Company has been approved by the People's Government of Taizhou City to proceed water supply business in the administrative jurisdiction of Taizhou, which enables it to possess the legal operation right.

Terms of Concession Rights

According to the Concession Rights Measures, the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should organise biddings and re-select the concessionaire by relevant procedures.

Pricing

According to the Measures for the Administration on the Price of Municipal Water Supply (《城市供水價格管理辦法》) promulgated on 23 September 1998, amended on 29 November 2004 and implemented on 1 December 2004 by the NDRC and the former Ministry of Construction, the competent price departments of the government at or above county level shall be the competent departments for the municipal water supply price. The price of municipal water supply is set by the government. In determining the price of municipal water supply, a hearing system and an announcement system shall be adopted. The price of municipal water supply consists of the costs of water supply, expenses, taxes and profits. The standard for sewage treatment fees shall be determined according to the fees on the operation, maintenance and construction of municipal drainage pipeline networks and sewage treatment plants.

According to the Regulations on Urban Water Supply (《城市供水條例》) promulgated by the State Council on 19 July 1994, implemented on 1 October 1994, and amended on 19 March 2018, the water for production and operation shall be priced with reasonable pricing. The method for formulating urban water supply prices shall be prescribed by the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

According to the Rules on the Government's Conduct of Pricing (Order of NDRC No.7) (《政府制定價格行為規則》(國家發改委第7號)) promulgated by NDRC on 18 September 2017, and implemented on 1 January 2018, when setting prices, the pricing authorities shall perform such procedures as cost investigation, cost supervision and examination, social opinion soliciting, legality examination, group deliberation and decision-making on pricing.

According to the Circular of the National Development and Reform Commission on Printing and Distributing the Guiding Opinions on Launching an Urban Water Price Adjustment and Cost Disclosure Pilot and the Measures for the Supervision and Examination of Urban Water Pricing-related Cost (Trial Implementation) (Fa Gai Jia Ge [2010] No. 2613) (《國家發展改革委印發〈關於做好城市供水價格調整成本公開試點工作的指導意見〉和〈城市供水定價成本監審辦法〉(試行)的通知》(發改價格[2010]2613號)) promulgated and implemented by the NDRC on 1 January 2011, the verification of the pricing cost of urban water supply should follow the following principles: principle of legality, principle of relevance, and principle of rationality. According to Notice of the Price Bureau of Zhejiang Province on Printing and Distributing the Implementation Rules for the Supervision and Examination of Water Supply Cost in Zhejiang Province and the Implementation Measures for

Water Supply Cost Information Disclosure in Zhejiang Province (zhe jia cheng [2017] No.197) (《浙江省物價局關於印發〈浙江省城市供水成本監審實施細則〉和〈浙江省城市供水成本信息公開實施辦法〉的通知》(浙價成[2017]197號)) promulgated and implemented by the Zhejiang Price Bureau on 22 December 2017, urban water pricing-related cost shall be implemented, supervised and examined by the government price authorities in Zhejiang Province. The cost of urban water pricing includes water production costs, transmission and distribution costs, period expenses and taxes and surcharges. Local government of Taizhou City adopts the pricing methodology above-mentioned when determining the price of raw water, municipal water and tap water. The price of raw water is the reference basis for municipal water price, and municipal water is also the reference basis for tap water price.

According to laws and regulations related to water prices, water supply service providers may not apply for a review of the prices fixed by the local authority. However, the Company confirms that it has participated in the process of determining the water price by the local authorities. Therefore, the water price set by the local pricing authorities can reflect the Company's price cost and price demand. In addition, the Company is entitled to apply for adjustment of the water supply price according to relevant laws. According to the Administration on the Price of Municipal Water Supply (《城市供水價格管理辦法》), municipal water supply enterprises that meet the following conditions may apply for price adjustment: they operate legally according to national laws and regulations, but the price is not enough to compensate for their simple reproduction; they still suffer losses with government subsidies; applying for price adjustment to compensate for the expansion of reproduction and investment reasonably. A municipal water supply enterprise shall apply in writing to and be examined and verified by the competent price departments of the local municipal people's government when there is a need to adjust the price of water supply. The adjustment for the price shall be carried out upon the approval by the local municipal people's government and reported to the competent price departments and competent departments for the administration of water supply of the upper level government for record. After the receipt of the application for the price adjustment of municipal water supply, the competent municipal price departments shall hold hearings, inviting the NPC delegates and Chinese People's Political Consultative Conference members, relevant departments and representatives of consumers from all sectors to participate in. Different on-grid water prices adopted by different water supply enterprises are permitted if there are water plants or pipeline networks operating independently in the city. However, for the consumers of the same kind, the same price shall be adopted.

According to the NDRC and the Ministry of Housing and Urban-Rural Development's Guiding Opinions on Accelerating the Establishment and Improvement of the Urban Residential Water Ladder Price System (《國家發展改革委、住房城鄉建設部關於加快建立完善城鎮居民用水階梯價格制度的指導意見》) issued by the NDRC and the Ministry of Housing and Urban-Rural Development on 31 December 2013, the resident ladder water price system is demanded to be established and improved. The system should be no less than three levels. According to the guarantee function of different levels, the first and second levels should maintain the appropriate price difference, and the third level should reflect the scarcity of water resources, increase the price difference, and restrain unreasonable consumption.

According to the Administrative Measures for Municipal Water Supply of Zhejiang Province《浙江省城市供水管理辦法》promulgated on 2 December 2005 by the People's Government of Zhejiang Province, pricing of municipal water supply is classified and graded according to the nature and use of water, and users are encouraged to save water. The determination and adjustment of municipal water supply price shall be carried out according to the price management authority and procedures, and the municipal water supply enterprise shall not determine and adjust the water price by itself. The municipal water supply price management method shall be formulated by the provincial price administrative department in conjunction with the relevant provincial administrative department and shall be announced to the public. Pursuant to the Pricing Catalogue of Zhejiang Province (2018 Edition) (《浙江省定價目錄(2018年版)》) promulgated by the Zhejiang Provincial Price Bureau and implemented on 1 March 2018, people's governments at city or county level are authorized to decide the water supply price of the water conservancy project within the jurisdiction, the tap water price supplied by the urban and rural public pipe network within the jurisdiction. According to Notice 210, Notice 228, Notice 5, Notice 1 and Notice 4, the prices of raw water, municipal water to municipal water service providers and tap water to end-users in counties and cities in Taizhou where our Group provides water supply service in the past four years are shown in the following table:

	Price of raw water supply(RMB/m³)											Price of municipal water to municipal water service providers(RMB/m³)					Price of tap water to end-users in Zeguo Town(RMB/m³)					
		Huangyan District						Luqiao District				Wenling City				Wenling City		Residents			Non-residents		Water for special purpose
Year	Jiaojiang District	Urban area	Chengjiang Street	Jiangkou Town	Toutuo Town	Beiyang Town	Urban area	Tongyu Street	Fengjiang Street	Luoyang Street	Zeguo Town	Jiaojiang District	Luqiao District	Yuhuan City	Urban area	Zeguo Town	Level 1	Level 2	Level 3	Non-operating	Operating	
2016	1.287	0.79	0.697	0.982	0.567	0.527	1.227	1.147	1.617	1.07	1.667	2.37	2.37	2.37	2.52	2.42	3.5	3.5	3.5	4.1	4.2	4.8
2017	1.287	0.79	0.697	0.982	0.567	0.527	1.227	1.147	1.617	1.07	1.667	2.37	2.37	2.37	2.52	2.42	3.9	5.85	7.8	4.6	4.6	7.0
2018	1.387	0.89	0.797	1.082	0.667	0.627	1.327	1.247	1.717	1.17	1.767	2.47	2.47	2.47	2.62	2.52	3.9	5.85	7.8	4.6	4.6	7.0
2019	1.387	0.89	0.797	1.082	0.667	0.627	1.327	1.247	1.717	1.17	1.767	2.47	2.47	2.47	2.62	2.52	4.0	6.0	12.0	4.7	4.7	14.1

Note: The prices include the water resources fee but exclude sewage treatment fee which is collected on behalf of the competent authority.

Foreign Capital Investment in Water Supply Industry

In accordance with the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (《關於加快市政公用行業市場化進程的意見》) (Jiancheng No. [2002] 272) promulgated and implemented by the former Ministry of Construction on 27 December 2002, it is encouraged that the social funds and foreign capitals invest in construction of municipal public utilities via sole proprietorship, joint venture and cooperation, so as to establish a diversified investment structure. Investors in construction of such for-profit municipal public utilities as the supply of water, gas and heat, sewage disposal and garbage disposal shall be selected through public bidding. According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (《外商投資准入特別管理措施(負面清單)》(2019年版)) promulgated on 30 June 2019 and implemented on 30 July 2019 by the NDRC and the Ministry of Commerce, investment in the construction and operation of urban water supply and drainage pipelines and networks in a city with more than 500,000 residents must be controlled by the Chinese shareholders. According to the Catalog of Industries for Encouraged Foreign Investment (2019 Edition) (《鼓勵外商投資產業目錄》(2019年版)) promulgated on 30 June 2019 and implemented on 30 July 2019 by the NDRC and the Ministry of Commerce, construction and operation of water supply plants falls within the industries for encouraged foreign investment in China.

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (《外商投資准入特別管理措施(負面清單)》(2019年版)), investment in the construction and operation of urban water supply and drainage pipelines and networks in a city with more than 500,000 residents must be controlled by the Chinese shareholders. As disclosed in the section headed "Structure and conditions of the Global Offering" in this prospectus, the Company proposes to apply for public offering of no more than 50,000,000 new H shares (representing no more than 25% of the aggregated share capital upon the issuance), and to grant the Sole Global Coordinator the Over-allotment Option to request the Company to allot no more than 15% of the H shares to be issued as mentioned above. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.71% of the enlarged issued share capital of the Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option. The existing shareholders of the Company before the initial public offering are all Chinese shareholders, and the Company will still be controlled by the Chinese party after the completion of the public offering. Our Company and our existing shareholders will pay close attention to the amendments of the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (《外商投資准入特別管理措施(負面清單)》(2019年版)) and strictly comply with relevant requirements.

Water Quality

The water quality of domestic drinking water provided by the means of various centralised and non-centralised water supply in urban and rural areas should comply with the standards set out in the Standards for Drinking Water Quality (《生活飲用水衛生標準》) (GB5749-2006) promulgated on 26 January 2007 and implemented on 1 July 2007. According to the Provisions of Water Quality Management for Urban Water Supply (《城市供水水質管理規定》) promulgated on 1 March 2007 and implemented on 1 May 2007 by the former Ministry of Construction, urban water supply units are responsible for the water quality supplied and shall regularly test the quality of raw water, treated water and pipe network water in accordance with testing items, frequencies and relevant standards and methods stipulated by

the State, and accordingly report water testing data to competent departments of local urban water supply of people's governments of municipalities, cities and counties.

Government Supervision

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and the Opinion 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》) issued and implemented by the former Ministry of Construction on 10 September 2005, governments should guide and supervise the concession activities of municipal public utilities which include: market access and exit, operational security, quality of the product and service, price and charge, pipeline network system and market competition order. Government's forms of supervision mainly include the following:

A. Routine Supervision

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

B. Mid-term Assessment

During the course of project operation, the authorities in charge of supervising the municipal public utility operators shall organise experts to carry out mid-term assessment on the performance of the operators who have acquired the concession; such assessment shall be carried out once at least every two years. Under special circumstances, the supervisory authorities may carry out annual assessments.

C. Supervision of Material Matters

Unless it is otherwise authorised by the government in advance, municipal public utilities operators may not transfer or lease their concession rights, dispose or mortgage project assets, shut down or wind up without permission during the concession period. If an enterprise which has been granted concession rights intends to unilaterally terminate the concession agreement within its valid period thereof, it shall apply to the supervisory authority in advance. Before such authority grants its consent for such termination, the relevant enterprise as obliged to guarantee normal business and service.

D. Consequences of Violations

Where an enterprise which has been granted concession right is involved in any one of the following conducts during the concession period, the competent authority shall terminate the relevant concession agreement by laws, and may take over the enterprise temporarily:

(1) Transfer or lease the concession rights without authorisation;

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

(3) Occurrence of any material quality or production safety accident due to poor management;

(4) Close out or shut down without permission, which seriously affects public interest and safety; and

(5) Other conduct prohibited by laws and regulations.

Bid Invitation and Bidding of Construction Projects

According to the Bid Invitation and Bidding Law of the PRC (《中華人民共和國招標投標法》) promulgated on 30 August 1999 and implemented on 1 January 2000 by the Standing Committee of the NPC, and amended on 27 December 2017 and implemented on 28 December 2017 and the Implementing Regulations on the Bid Invitation and Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》) promulgated on 20 December 2011 and implemented on 1 February 2012 by the State Council, last amended and implemented on 2 March 2019, in respect of construction projects like large infrastructure and public utility projects that concern public interests and security and projects invested completely or partly with State-owned funds or financed by the State to be undertaken within the territory of the PRC, the surveying, design, construction and supervision of such projects as well as the purchase of key equipment and materials for such projects, must be subject to bid invitation. Bid invitation is classified into two categories: public invitation and invited bidding. Any company that, in violation of the provisions of above laws, fails to invite bids for a project subject to bid invitation, or breaks up the project into parts, or by any other means tries to dodge bid invitation shall put it right within a time limit and may be fined not less than 0.5 percent but not more than 1 percent of the contract value of the project; where a project, which completely or partly uses state-owned funds is concerned, its construction or allocation of funds may be suspended. The persons who are directly in charge and the other persons who are directly responsible shall be given sanctions in accordance with law.

BUSINESS QUALIFICATIONS AND LICENSES

Qualifications for Municipal Water Supply Enterprises

According to the Decisions of the State Council on the Cancellation of the First Batch of the Items Requiring Administrative Approval (《國務院關於取消第一批行政審批項目的決定》) promulgated and implemented on 1 November 2002 by the State Council, the administrative approval of the qualifications for municipal water supply enterprises has been cancelled.

Health Permit

According to the Measures for the Administration on the Health Supervision of Domestic Drinking Water (《生活飲用水衛生監督管理辦法》) promulgated by the former Ministry of Construction and Ministry of Health on 9 July 1996 and amended on 12 February 2010 and 17 April 2016 respectively, and implemented on 1 June 2016, the State implements the health permit system for the water supply units and the products involving drinking water safety. A centralised water supply unit must obtain a health permit issued by the health administrative department of the local people's government at or above the county level. The term of a health permit is four years. The water supply units shall reapply for recertification within 6 months prior to expiration of the health permit.

As water supply units, our Company and our relevant subsidiaries are subject to the aforesaid laws and regulations in respect of health permits.

Water Intake Permit

According to the Water Law of PRC (《中華人民共和國水法》) promulgated by the Standing Committee of the NPC on 21 January 1988 and amended on 29 August 2002, 27 August 2009, and 2 July 2016 respectively, and implemented on 2 July 2016, the Regulations on Administration of Water Intake Permit and Levy of Water Resources Charges (《取水許可和水資源費徵收管理條例》) promulgated by the State Council on 21 February 2006 and amended and implemented on 1 March 2017 and the Measures on Administration of Water Intake Permit (《取水許可管理辦法》) promulgated on 9 April 2008 by the Ministry of Water Resources and amended and implemented on 6 December 2015, except for those who are not required to apply for water intake permit under legal requirements, entities and individuals which obtain water resources from rivers, lakes and underground water and have water extradition works or facilities completed and operated for over 30 days, shall apply for water intake permit to the competent water administration department of the municipal government at county level or above in accordance with the requirements of the State water intake permit system and the institution of compensated use of water resources, and obtain the water intake rights by paying water resources fee. Water intake entities or individuals shall acquire water according to the approved annual water intake plan. In the event that the water acquisition exceeds the limit under the plan or the defined amount, water resources fee shall be paid on the excess part on a progressive basis.

Water intake permit generally lasts for five years but not more than ten years. Upon the expiration of the valid term, water intake entities or individuals who seek for extension shall submit their applications to the former approval authorities within 45 days prior to the expiration.

As water intake entities, our Company and our relevant subsidiaries are subject to the aforesaid laws and regulations in respect of water intake permits.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

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

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and implemented on 26 December 1989, amended on 24 April 2014 and implemented on 1 January 2015 by the Standing Committee of the NPC, enterprises, public institutions and other manufacturers and business operators discharging pollutants shall adopt measures to avoid and control the pollution and damage caused to the environment incurred during the production, construction or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the mainbody construction of the project. No permission shall be given for a construction project to be commissioned or used until its facilities for the prevention and control of pollution are examined and accepted by the competent administrative department of environmental protection. In case the enterprises, public institutions and other manufacturers and business operators violate the laws and regulations to discharge pollutants, which causes or might

cause severe pollution, the competent department of environmental protection and other departments responsible for the supervision and administration of environmental protection under the people's governments above the county level may seal up and sequester their facilities and equipment discharging pollutants.

According to the Law of the PRC on Appraising of Environment Impact (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended and implemented on 2 July 2016 and 29 December 2018 respectively, and the Provisions on Approval of Environmental Impact Assessment Documents Concerning Construction Projects at Different Administrative Levels (《建設項目環境影響評價文件分級審批規定》) promulgated on 16 January 2009 and amended and implemented on 1 March 2009, the state government of the PRC has set up a system to appraise the environmental impact of construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of environmental impact caused by the construction project. If a construction project may result in a material impact on the environment, an environmental impact report is required, which thoroughly appraises the potential environmental impact. If the construction project may result in a slight impact on the environment, an environmental impact report setting out the analysis or specific appraisal on the environmental impact caused is required, and if the construction project may result in very few impact on the environment, an environmental impact appraisal is not required but an environmental impact registration form shall be filed. If the environmental impact assessment documents of the construction project fails to be examined by the examination and approval department in accordance with the law or is not approved after examination, the construction unit may not start construction. Approval authority at different levels on environmental impact assessment documents concerning construction projects is, in principle, determined in accordance with the authority on the approval, verification and registration of the construction projects and the nature and degree of its environmental impact.

According to the Administrative Regulations for the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and implemented on 1 October 2017, the Administrative Measures on Acceptance Inspections for Environmental Protection Purposes over Completed Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated by the former State Administration for Environmental Protection on 17 December 2001, implemented on 1 February 2002 and revised on 22 December 2010, and the Interim Measures on Acceptance Inspections for Environmental Protection Purposes over Completed Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) promulgated and implemented by the former Ministry of Environmental Protection on 20 November 2017, before the trial production of the construction projects, construction entities shall apply to the competent environmental protection authority which is authorised to do so for trial production; upon the completion of the construction project and before the project is put into production or use, construction entities shall apply to the competent environmental protection authority which is authorised to do so for acceptance inspection over the completed construction projects. Simultaneous design, construction and put-into-operation with the main body construction of the relevant project must be arranged for the supporting environmental protection facilities construction which is required for the construction project. For a construction project for which an environmental impact report or environmental impact statement is required to be prepared, its supporting environmental protection facilities may go into production or be delivered for use only after they pass the acceptance check; and they may

not go into production or be delivered for use if no acceptance check is made for them or they fail to pass the acceptance check. According to the Circular on Discontinuation of Approving the Trial Production of Construction Projects by Competent Departments of Environmental Protection (《關於環境保護主管部門不再進行建設項目試生產審批的公告》) promulgated and implemented by the Ministry of Environmental Protection on 8 April 2016, the competent departments of environmental protection at provincial, municipal or county level will discontinue the acceptance of application for trial production of construction projects and the approval of the trial production of construction projects.

LAND, PLANNING AND CONSTRUCTION PERMITS

The construction and operation of our Company shall be in compliance with the laws and regulations in relation to land, planning and construction permits.

Land Use Rights

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated on 25 June 1986 and became effective on 1 January 1987 and amended on 29 December 1988, 29 August 1998 and 28 August 2004, state-owned land may be remised or allotted to construction units or individuals in accordance with the law. People's governments at or above the county level shall register the state-owned land legally used by construction units or individuals, and issue certificates to certify the land use rights.

According to the Catalogue of the Granted Land (《劃撥用地目錄》) promulgated and implemented on 22 October 2001, with respect to the lands used for the water supply facilities (including the water origin, water intake project, water purification plant, water transporting and distributing project, water quality testing center, dispatching center and control center) and other urban infrastructure, land use rights will be granted to the construction units by an application to and approval by the relevant people's government which is entitled to authorisation in respect thereof.

Construction Land Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of the NPC on 28 October 2007 and implemented on 1 January 2008 and amended on 24 April 2015 and 23 April 2019 respectively, a construction land planning permit is required for use of land, either acquired via transfer or grant.

If a construction entity which was authorised to use the construction land fails to obtain a construction land use planning permit, people's governments at or above the county level shall withdraw any relevant authorisation document. If land occupation is involved, it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

Construction Work Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply for a construction work planning permit from a competent urban and rural planning administrative department of the governments at the municipal or county level or to the governments of town as recognised by the governments of a province, autonomous region or municipality.

For construction work that proceeds without the construction work planning permit or in violation of the provisions of the construction work planning permit, a competent urban and rural planning administrative department of the governments at or above the county level can order termination; if the impact on the planning caused by such construction can be eliminated via remedial actions, the department shall order it to take remedial action within a prescribed time limit and pay a fine of not less than 5% but not exceeding 10% of the construction cost; if such impact cannot be eliminated by remedial action, the department shall order the construction entity to demolish its construction within a prescribed time limit. For construction work that cannot be demolished, the department shall not only confiscate anything in kind or seize any illegal income but also may impose a fine not more than 10% of the construction price.

Construction Work Commencement Permit

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated on 1 November 1997 and implemented on 1 March 1998, and amended on 22 April 2011 and 23 April 2019 respectively by the Standing Committee of the NPC, a construction entity shall, prior to the commencement of construction works concerning construction of various properties and buildings and their ancillary facilities as well as the installation of wiring, piping and equipment, apply for a construction work commencement permit from a competent construction department of the governments at or above the county level in the place where the project is located pursuant to the relevant regulations of the State. However, insignificant projects whose size is smaller than the cap determined by the competent construction authority of the State Council, and construction projects which have already obtained approvals for their construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council, are subject to exception.

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated and implemented by the State Council on 30 January 2000 and amended on 7 October 2017 and 23 April 2019 respectively, a construction entity commencing construction without obtaining the construction work commencement permit or approvals for its construction commencement report, shall be ordered to stop the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the contractual construction price.

Inspection and Acceptance on Completion of Construction Projects

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) and Administrative Measures for Inspection and Acceptance Filing of Construction Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎

設施工程竣工驗收備案管理辦法》) which was promulgated and implemented on 19 October 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file with a competent construction administrative department of the governments at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks.

Where a construction entity illegally delivers the construction project for use without arranging necessary acceptance checks or in circumstances where it fails to pass the acceptance checks, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file the acceptance checking in respect of the project within 15 days from the day when the construction project passes such checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.

LABOUR PROTECTION

Our Company is governed by PRC laws and regulations relating to labour protection.

Pursuant to the PRC Labour Law (《中華人民共和國勞動法》) promulgated on 5 July 1994 and became effective on 1 January 1995, and amended on 27 August 2009 and 29 December 2018 respectively and the PRC Labour Contract Law (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and became effective on 1 January 2008 and further revised on 28 December 2012 together with relevant labour laws and regulations, if an employment relationship is established between the employer and its employees, written labour contracts shall be prepared and labour remuneration shall be paid by the employer to its employees. Such contracts shall stipulate statutory working hours and breaks and holiday system, guaranteeing the labours' rights of enjoying safe and healthy working environment and social insurance, and can only be terminated in accordance with relevant laws.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated on 28 October 2010, implemented on 1 July 2011 and amended on 29 December 2018, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension insurance, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while work-related injury insurance and maternity insurance contributions shall be solely undertaken by employers.

Pursuant to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) promulgated and became effective on 3 April 1999, as amended on 24 March 2002, the employer must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. When employing new staff or workers, the employer shall undertake housing provident fund payment and deposit registration at a housing provident fund management center within 30 days from the date of the employment. The housing provident fund shall be contributed by both the employer and the employee. The

employer shall monthly pay the housing provident fund in the amount of the average monthly salary of the employee in the previous year times a certain deposited ratio designated to the employer, which shall not be less than 5% of an individual employee's monthly average wage of the preceding year. The employer shall pay up and deposit housing provident fund contributions in full in a timely manner. Late or insufficient payments are prohibited.

Pursuant to the Reform Plan of the State Tax and Local Tax Collection Administration System (《國税地税徵管體制改革方案》issued by the General Office of the Communist Party of China and the General Office of the State Council of the PRC on 20 July 2018, tax authorities will be responsible for the collection of social insurance contributions in the PRC from 1 January 2019. Pursuant to the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Effectively Implementing the Spirit of the Standing Meeting of the State Council and Effectively Conducting the Collection of Social Insurance Premiums in a Stable Manner (《人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) (the "**Urgent Notice**") issued by the Ministry of Human Resources and Social Security on 21 September 2018, before the reform of the social insurance collection authorities being in place, the relevant levying policies, including the base and rate of the social insurance premiums, shall remain unchanged. The Urgent Notice also clarified that it is strictly prohibited for the local authorities themselves to organize and conduct centralized collection of enterprises historical social insurance arrears.

TAXATION

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

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) (the "EIT Law") promulgated on 16 March 2007 and with effect from 1 January 2008, and amended on 24 February 2017 and 29 December 2018 respectively, and the Implementation Rules to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》) promulgated on 6 December 2007 and with effect from 1 January 2008 and as amended on 23 April 2019, resident enterprises, which refer to enterprises that are set up in China 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 ("EIT") in respect of its income originating both within and outside the PRC, at the rate of 25%.

According to the EIT Law and the Implementation Rules to the Enterprise Income Tax Law of the PRC, in respect of an entity's income arising from its engagement in certain environment protection, energy and water conservation projects meeting relevant conditions, the entity is not subject to EIT from the first to the third year commencing from the taxable year which the first batch of income from its production and operation falls with, and is subject to an half levy of EIT for the fourth to the sixth year. Investment in acquiring some special equipment for the purpose of environment protection, energy and water conservation and safe production may apply tax credit at a certain rate.

Value-added Tax and Business Tax

The Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業税改徵增值税試點的通知》) was promulgated by the SAT and MOF on 23 March 2016, effective from 1 May 2016, and amended for several times, which stipulated that the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner since 1 May 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. As for pipeline transportation services provided by general taxpayers, the portion exceeding 3% of the actual VAT burden is eligible for the immediate refund of value-added tax ("**VAT**") after collection policy.

The Interim Regulations of the PRC on Value Added Tax (《中華人民共和國增值税暫行條例》) (the "**VAT Regulations**") was promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017. The Implementing Rules for the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值税暫行條例實施細則》) (the "**Implementing Rules on VAT**") was promulgated by the MOF on 25 December 1993, first amended on 15 December 2008 and came into effect on 1 January 2009, subsequently amended on 28 October 2011 and became effective on 1 November 2011. Under the VAT Regulations and Implementing Rules on VAT, entities and individuals selling goods, providing labour services of processing, repairing or maintenance, or selling services, intangible assets or real property in China, or importing goods to China, shall be identified as taxpayers of value-added tax, and shall pay value-added tax. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

According to the Circular 32, for a taxpayer who engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable tax rates 17% and 11% will be adjusted to 16% and 10% respectively.

According to the Announcement 39, for the VAT taxable sales or imports of goods by a general taxpayer of VAT, the applicable tax rate shall be adjusted to 13% from the original 16% and to 9% from original 10%.

Urban Maintenance and Construction Tax as well as Education Surcharge

Pursuant to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設税暫行條例》) promulgated on 8 February 1985, implemented on 1 January 1985, and amended on 8 January 2011, any unit or individual liable to consumption tax, VAT and business tax shall also pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with the Interim Provisions on the Collection of Educational Surcharge (《徵收教育費附加的暫行規定》) promulgated on 28 April 1986 and implemented on 1 July 1986 and amended on 8 January 2011, all units and individuals who pay consumption tax, VAT and business tax shall also pay education surcharge in accordance with these Provisions. The education surcharge rate is 3% of the amount of VAT, business tax and consumption tax actually paid by each unit or individual, and the education surcharge shall be paid simultaneously with VAT, business tax and consumption tax.

FOREIGN EXCHANGE ADMINISTRATION

Our Company is governed by the following PRC laws and regulations of foreign exchange administration.

According to the requirements of the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996, implemented from 1 April 1996 and amended on 5 August 2008, the engagement of overseas negotiable securities, issuance and trading of derivative products by domestic institutions shall be registered in accordance with the requirements of the foreign exchange administration department of the State Council. Exchange income of domestic institutions and domestic individuals may be repatriated or deposited in overseas, and the conditions and terms of being repatriated or depositing in overseas shall be subject to the requirements of the foreign exchange administration department of the State Council in accordance with the conditions of international income and expenditure and the needs of foreign exchange administration. Funds of foreign exchange and settlement of exchange for capital accounts shall be utilised subject to the approval of relevant competent department and foreign exchange administration authorities. Foreign exchange administration authorities have the authority to supervise and examine the use of funds of foreign exchange and settlement of exchange for capital accounts and changes in accounts.

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

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

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

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

(4) A domestic company may, based on its needs, apply to the opening bank, by presenting its registration certificate for overseas listing, for domestic transfer of or payment from funds under the special account for overseas listing, or for transfer of the foreign exchange settlement to its unpaid account. A domestic company shall, in case of application for domestic transfer of or payment from the funds under the unpaid account, present to the opening bank the document evidencing the consistency between the use of funds set forth in its disclosure documents for overseas listing and the purpose of repatriation and foreign exchange settlement; if the purpose is inconsistent with the use of funds specified in the disclosure documents or not specified in its disclosure documents, the company shall provide the resolution of its board of directors or shareholders' general meeting on change or clarification of the uses of relevant funds.

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

(6) In case that a state-owned shareholder of a domestic company is required to contribute the proceeds from shareholding decrease to the National Social Security Fund in accordance with the Interim Measures for Social Security Funds Raised through Decrease of the Holding of State-owned Shares (《減持國有股籌集社會保

障資金管理暫行辦法》), the domestic company shall handle on behalf of the shareholder this matter, remit and transfer the relevant funds through its special account for overseas listing and unpaid account. The domestic company shall present relevant certifications to the opening bank which its special account for overseas listing and unpaid account are opened with, and apply for direct transfer of the proceeds from the shareholding decrease (or transfer of the proceeds after foreign exchange is settled and transferred to the unpaid account) to a correspondent account which the MOF has opened with a domestic bank.

According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) promulgated on 13 February 2015 and implemented on 1 June 2015 by SAFE, SAFE: (1) cancels the foreign exchange registration approval under both domestic and overseas direct investment. The foreign exchange registration under both domestic and overseas direct investment will be directly reviewed and handled by banks in accordance with the aforesaid circular and the Guidelines for Direct Investment-related Foreign Exchange Business (《直接投資外匯業務操作指引》), and the SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration via banks; (2) cancels the foreign exchange filing of overseas reinvestment; and (3) cancels annual inspection of the direct investment-related foreign exchange. Instead, registration of existing equity shall be adopted.

OVERVIEW

Our history traced back to the establishment of our Predecessor Company in the PRC on 5 May 1993 as a limited liability company. Our Predecessor Company commenced the water supply service in Taizhou in December 1995.

Pursuant to the Founders Agreement, our Predecessor Company was converted into our Company, a joint stock company with limited liability, on 30 June 1999 and our registered capital was increased to RMB149.13 million through contribution of net assets of our Predecessor Company and cash by our Founders.

Our Company adopted its current name "Taizhou Water Group Co., Ltd." (台州市水務集團股份有限公司) on 23 May 2016.

KEY MILESTONES

Below sets out the key milestones of our business development:

May 1993	our Predecessor Company was established
December 1995	our Predecessor Company commenced the business of water supply service in Taizhou
December 1996	the Supervision Division of Huang-Jiao-Wen Joint Water Supply Project (黃椒溫聯合供水總指揮部) transferred the assets of the Taizhou Water Supply System (Phase I) to our Predecessor Company
June 1999	our Predecessor Company was converted into a joint stock limited liability company
February 2004	participation in the construction of the Taizhou Water Supply System (Phase II) commenced
September 2009	completion of the construction of the Taizhou Water Supply System (Phase II)
May 2015	our project proposal on the Taizhou Water Supply System (Phase III) was accepted by Taizhou DRC
February 2018	construction of the Taizhou Water Supply System (Phase III) commenced
April 2018	our project proposal on the Taizhou Water Supply System (Phase IV) was accepted by Taizhou DRC
November 2018	construction of the Taizhou Water Supply System (Phase IV) commenced

OUR CORPORATE DEVELOPMENT

The following sets forth the corporate history and changes in the shareholding composition of our Company.

Our Predecessor Company

Our Predecessor Company was established as a limited liability company in the PRC on 5 May 1993 with an initial registered capital of RMB65,415,000.

The following table sets forth the changes in registered capital and shareholders of our Predecessor Company since its establishment and up to the establishment of our Company:

Date	Change	Registered share capital immediately after the change	Shareholders and shareholding percentage immediately after the change
Upon establishment	–	RMB65.415 million	(i) Huangyan City Financial Development Company* (黃岩市財務開發公司) (48.52%) (ii) Jiaojiang Financial Development Company* (椒江市財務開發公司) (36.04%) (iii) Wenling Zeguo Economic Development Company* (溫嶺市澤國經濟開發公司) (15.44%)
January 1996	Transfer of equity interest in our Predecessor Company by Huangyan City Financial Development Company to Zhejiang Huangyan Financial Development and Taizhou Luqiao Financial Development	RMB65.415 million	(i) Taizhou Jiaojiang Infrastructure (36.04%) (ii) Zhejiang Huangyan Financial Development (28.00%) (iii) Taizhou Luqiao Financial Development (20.52%) (iv) Wenling Zeguo Economic Development Company (15.44%)

Date	Change	Registered share capital immediately after the change	Shareholders and shareholding percentage immediately after the change
1998	(i) Increase in registered capital by RMB43.715 million (ii) Transfer of equity interest in our Predecessor Company by Wenling Zeguo Economic Development Company to Taizhou Financial Development Company* (台州市財務開發公司) (iii) Contribution of capital by Taizhou Financial Development Company (iv) Transfer of equity interest in our Predecessor Company by Taizhou Financial Development Company to Taizhou Urban Construction (v) Transfer of equity interest in our Predecessor Company in the value of RMB10.0 million by Taizhou Jiaojiang Infrastructure to Taizhou Small Hydropower Service Station* (台州市小水電服務站)	RMB109.13 million	(i) Taizhou Urban Construction (30.24%) (ii) Zhejiang Huangyan Financial Development (24.30%) (iii) Taizhou Jiaojiang Infrastructure (20.25%) (iv) Taizhou Luqiao Financial Development (16.05%) (v) Taizhou Small Hydropower Service Station (9.16%)
January 1999	Transfer of equity interest in our Predecessor Company by Taizhou Small Hydropower Service Station to Taizhou Hydropower*(Note)*	RMB109.13 million	(i) Taizhou Urban Construction (30.24%) (ii) Zhejiang Huangyan Financial Development (24.30%) (iii) Taizhou Jiaojiang Infrastructure (20.25%) (iv) Taizhou Luqiao Financial Development (16.05%) (v) Taizhou Hydropower (9.16%)

Note: Pursuant to the Decision in relation to the transfer of equity interest in Taizhou Water Supply Co., Ltd. to Taizhou Hydropower (Tai Shui Dian [1999] No. 12) (《關於劃撥台州供水有限公司股份給台州市電力開發有限公司的決定》(台水電[1999]12號)) issued by the Taizhou Water Resources and Electric Power Bureau* (台州市水利電力局) on 14 January 1999, Taizhou Small Hydropower Service Station transferred its equity interest in the Predecessor Company to Taizhou Hydropower.

Establishment of our Company

Pursuant to the Founders Agreement, the Founders agreed to convert our Predecessor Company into a joint stock limited liability company under the name of Zhejiang Taizhou Water Supply Co., Ltd.* (浙江台州供水股份有限公司) and the Founders shall contribute to the registered capital by way of cash or net assets of our Predecessor Company.

Upon obtaining approval by the then Securities Commission of the Zhejiang Provincial People's Government* (浙江省人民政府證券委員會) in its Approval in relation to Establishment of Zhejiang Taizhou Water Supply Co., Ltd. (Zhe Zheng Wei [1999] No. 25) (《關於同意設立浙江台州供水股份有限公司的批覆》(浙證委[1999]25號)) on 31 March 1999, our Predecessor Company was converted into a joint stock limited liability company on 30 June 1999 with an initial registered capital of RMB149,130,000, divided into 149,130,000 Shares with a par value of RMB1.00 each. The then entire registered capital was fully settled by our Founders in December 1998 in cash or net assets of our Predecessor Company based on its appraised value as of 30 November 1998.

The following table sets forth the details of our Founders' contribution to the establishment of our Company:

Name of Founders	Number of Shares held	Contribution	Shareholding percentage
Taizhou Urban Construction	33,000,000	Net assets of our Predecessor Company in the value of RMB33,000,000	22.13%
Zhejiang Huangyan Financial Development	26,524,800	Net assets of our Predecessor Company in the value of RMB26,524,800	17.79%
Taizhou Jiaojiang Infrastructure	22,094,000	Net assets of our Predecessor Company in the value of RMB22,094,000	14.82%
Zhejiang Taixin	20,000,000	RMB20,000,000 in cash	13.41%
Zhejiang Zhijiang	20,000,000	RMB20,000,000 in cash	13.41%
Taizhou Luqiao Financial Development	17,511,200	Net assets of our Predecessor Company in the value of RMB17,511,200	11.74%
Taizhou Hydropower	10,000,000	Net assets of our Predecessor Company in the value of RMB10,000,000	6.70%
	149,130,000	RMB149,130,000	100%

For further information of our Founders, please see "Information of our Founders" below.

Share transfers between 2002 and 2011

In September 2002, Taizhou Hydropower entered into a share transfer agreement with Taizhou Urban Construction, pursuant to which Taizhou Hydropower agreed to transfer its 6.70% shareholding interest in our Company to Taizhou Urban Construction at the price of RMB1.50 per share for a total consideration of RMB15,000,000, which was determined with reference to a valuation appraised by an independent valuer in the PRC. The transfer was completed in December 2003.

In September 2008, Zhejiang Zhijiang agreed to transfer (i) its 6.705% shareholding interest in our Company to Lipin Enterprise; and (ii) its 6.705% shareholding interest in our Company to Lanping Jinghong Investment Co., Ltd.* (蘭坪景鴻投資有限公司) ("**Lanping Jinghong**"). The consideration of each transfer was RMB10,000,000, which was determined with reference to the registered capital of the Company at the time of transfer, has been fully settled. The transfers were completed in October 2008.

In September 2010, Lanping Jinghong entered into a share transfer agreement with Qufeng Holdings, pursuant to which Lanping Jinghong agreed to transfer its 6.705% equity interest in our Company to Qufeng Holdings for a consideration of RMB9,999,166.50 which was determined after arm's length negotiation.

In March 2011, Taizhou Luqiao Financial Development transferred its 11.74% shareholding interest in our Company to Taizhou Luqiao Public Assets. Taizhou Luqiao Financial Development and Taizhou Luqiao Public Assets were wholly state-owned enterprises controlled by the People's Government of Luqiao District. The People's Government of Luqiao District issued a confirmation letter on 19 April 2019 confirming that the transfer was a gratuitous transfer of state-owned shares which complied with the relevant PRC laws and regulations, and there is no dispute or potential dispute or other issue arising from the loss of state-owned assets.

The following table sets forth the shareholding structure of our Company upon completion of the above transfers:

Name of Shareholders	Number of Shares held	Shareholding percentage
Taizhou Urban Construction	43,000,000	28.83%
Zhejiang Huangyan Financial Development	26,524,800	17.79%
Taizhou Jiaojiang Infrastructure	22,094,000	14.82%
Zhejiang Taixin	20,000,000	13.41%
Taizhou Luqiao Public Assets	17,511,200	11.74%
Lipin Enterprise	10,000,000	6.705%
Qufeng Holdings	10,000,000	6.705%
	149,130,000	100%

Capital increase in 2017

On 12 March 2017, a shareholders' meeting of the Company was convened and resolved to increase the registered capital of our Company from RMB149,130,000 to RMB217,729,800. The additional capital of RMB68,599,800 was contributed by the undistributed profit of the Company. Our Company completed the registration of the above changes in registered capital with the Administration for Market Regulation of Taizhou and obtained the renewed business licence on 16 March 2017.

The following table sets forth the shareholding structure of our Company upon completion of the capital increase:

Name of Shareholders	Number of Shares held	Shareholding percentage
Taizhou Urban Construction	62,780,000	28.83%
Zhejiang Huangyan Financial Development	38,726,208	17.79%
Taizhou Jiaojiang Infrastructure	32,257,240	14.82%
Zhejiang Taixin	29,200,000	13.41%
Taizhou Luqiao Public Assets	25,566,352	11.74%
Lipin Enterprise	14,600,000	6.705%
Qufeng Holdings	14,600,000	6.705%
	217,729,800	100%

Demerger and subsequent change in registered capital in 2017

Since June 2000, in addition to our water supply business, we carried out property development and leasing business through two PRC subsidiaries, namely Zhejiang Mingji and Water Supply Hotel.

Zhejiang Mingji

Zhejiang Mingji was established as a limited liability company in the PRC on 5 June 2000. Prior to the Demerger, it was owned as to (i) 62.8% by our Company; (ii) 13.1% by Taizhou Huangyan Packing Co., Ltd.* (台州市黃岩包裝有限公司); (iii) 12.05% by Qufeng Holdings; and (iv) 12.05% by Lipin Enterprise. Zhejiang Mingji was principally engaged in property development business.

Water Supply Hotel

Water Supply Hotel was established in the PRC as a limited liability company on 15 December 2006. Prior to the Demerger, it was a wholly-owned subsidiary of the Company. Water Supply Hotel was principally engaged in property leasing business.

The Demerger

The businesses of Zhejiang Mingji and Water Supply Hotel are dissimilar with our core business and required different resources and expertise. Prior to the Demerger, save for a deputy general manager of our Company who also served as the chairman of Zhejiang Mingji, there was no overlapping of the board of directors and senior management between our Group, Zhejiang Mingji and Water Supply Hotel. In order to focus on our core business as a water supply service provider and to streamline the corporate structure of our Group, steps were taken by our Group to effect the Demerger in order to spin off the above businesses from our Company and for such businesses to be grouped under a new entity, namely Taizhou Development, which was established upon completion of the Demerger.

Taizhou SASAC approved the proposal to split our Company into two separate legal entities, namely our Company and Taizhou Development, in its Approval in relation to Demerger Proposal of Taizhou Water Supply Co., Ltd. (Tai Guo Zhi [2017] No. 55) (《關於〈台州市水務集團股份有限公司分立方案〉的批覆》(台國資[2017]55號)) on 8 June 2017, pursuant to which our Company would retain the water supply business only and the new entity, namely Taizhou Development, would focus solely on the property development and leasing business. The registered capital of the two entities shall be calculated based on the book value of the identifiable assets and liabilities of the respective business as of 31 March 2017 as appraised by independent valuers in the PRC.

On 3 July 2017, a shareholders' meeting of the Company was convened and resolved to undergo the Demerger. As a result of the Demerger, 62.8% shareholding interest in Zhejiang Mingji and the entire shareholding interest in Water Supply Hotel, together with the relevant assets and liabilities in the sums of RMB67,729,800 and nil, respectively, were allocated from our Group to the new entity, namely, Taizhou Development. Accordingly, the registered capital of our Company was reduced from RMB217,729,800 to RMB150,000,000.

Our Company completed the registration of the above changes in registered capital with the Administration for Market Regulation of Taizhou and obtained the renewed business licence on 25 August 2017. Taizhou Development was formally established on 28 August 2017 with a registered capital of RMB67,729,800. The main purpose of the Demerger is to exclude the property development and property leasing businesses from our Group. As of the Latest Practicable Date, Taizhou Development was under the same shareholder structure as that of our Company.

Our Directors confirm that to the best of their knowledge after due and careful enquiry, prior to the Demerger, Zhejiang Mingji and Water Supply Hotel were not involved in any material legal proceedings or disputes, and they had complied with all applicable laws and regulations in all material respects in the PRC. Having considered the above, our Directors considered it to be in the interests of our Group to dispose of its interest in Zhejiang Mingji and Water Supply Hotel.

According to our PRC Legal Adviser, the Demerger had been properly and legally settled and completed, and all necessary approvals, consents and registrations from the relevant PRC authorities had been obtained.

The following table sets forth the shareholding structure of our Company upon completion of the Demerger:

Name of Shareholders	Number of Shares held	Shareholding percentage
Taizhou Urban Construction	43,250,855	28.83%
Zhejiang Huangyan Financial Development	26,679,541	17.79%
Taizhou Jiaojiang Infrastructure	22,222,893	14.82%
Zhejiang Taixin	20,116,677	13.41%
Taizhou Luqiao Public Assets	17,613,358	11.74%
Lipin Enterprise	10,058,338	6.705%
Qufeng Holdings	10,058,338	6.705%
	150,000,000	100%

Share transfer from Lipin Enterprise to Lipin Sanmin in 2018

On 26 September 2018, Lipin Enterprise entered into a share transfer agreement with its 90%-owned subsidiary, Lipin Sanmin, pursuant to which Lipin Enterprise agreed to transfer its 6.705% shareholding interest in our Company to Lipin Sanmin for a consideration of RMB10,058,338, which was determined with reference to the registered capital of the Company at the time of transfer. The said consideration was fully settled by Lipin Sanmin in January 2019.

The following table sets forth the shareholding structure of our Company upon completion of the above transfer:

Name of Shareholders	Number of Shares held	Shareholding percentage
Taizhou Urban Construction	43,250,855	28.83%
Zhejiang Huangyan Financial Development	26,679,541	17.79%
Taizhou Jiaojiang Infrastructure	22,222,893	14.82%
Zhejiang Taixin	20,116,677	13.41%
Taizhou Luqiao Public Assets	17,613,358	11.74%
Lipin Sanmin	10,058,338	6.705%
Qufeng Holdings	10,058,338	6.705%
	150,000,000	100%

Disposal of non-core business

To further streamline our Group's organisational structure and to focus on our core business, our Company disposed of the entire interest in two other PRC subsidiaries, namely Taizhou Modern Construction and Zhejiang Taizhou Landscape, in November 2018.

Taizhou Modern Construction

Taizhou Modern Construction was established as a limited liability company in the PRC on 5 September 2000 and prior to the Disposal, it was wholly-owned by our Company. Taizhou Modern Construction was principally engaged in construction of public works. Since the business of Taizhou Modern Construction was unrelated to the core business of our Group and our Group intended to focus on our core business of provision of water supply services, on 7 November 2018, our Company transferred its entire interest in Taizhou Modern Construction to Taizhou Development at a consideration of RMB7,020,000 through the open bidding process conducted by the Taizhou Property and Right Exchange Co., Ltd.* (台州市產權交易所有限公司). The consideration was determined with reference to the net asset value of Taizhou Modern Construction as appraised by independent valuers in the PRC in the sum of RMB7,017,029.01 and was fully settled in November 2018. The transfer was completed on 15 November 2018.

Our Directors confirm that to the best of their knowledge after due and careful enquiry, prior to the Disposal, Taizhou Modern Construction was not involved in any material legal proceedings or disputes, and it had complied with all applicable laws and regulations in all material respects in the PRC. Having considered the above, our Directors considered it to be in the interests of our Group to dispose of its interest in Taizhou Modern Construction.

Our PRC Legal Adviser has confirmed that the above disposal was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

Zhejiang Taizhou Landscape

Zhejiang Taizhou Landscape was established in the PRC as a limited liability company on 28 June 1993 and prior to the Disposal, it was wholly-owned by our Company. Zhejiang Taizhou Landscape was principally engaged in design, construction and maintenance of landscape projects and construction of public works. Since the business of Zhejiang Taizhou Landscape was unrelated to the core business of our Group and our Group intended to focus on our core business of provision of water supply services, on 7 November 2018, the Company transferred its entire interest in Zhejiang Taizhou Landscape to Taizhou Development at a consideration of RMB12,670,000 through the open bidding process conducted by the Taizhou Property and Right Exchange Co., Ltd.. The consideration was determined with reference to the net asset value of Zhejiang Taizhou Landscape as appraised by independent valuers in the PRC in the sum of RMB12,661,048.96 and was fully settled in November 2018. The transfer was completed on 15 November 2018.

Our Directors confirm that to the best of their knowledge after due and careful enquiry, prior to the Disposal, Zhejiang Taizhou Landscape was not involved in any material legal proceedings or disputes, and it had complied with all applicable laws and regulations in all material respects in the PRC. Having considered the above, our Directors considered it to be in the interests of our Group to dispose of its interest in Zhejiang Taizhou Landscape.

Our PRC Legal Adviser has confirmed that the above disposal was properly and legally completed and settled and all necessary approvals, consents and registrations from the relevant PRC authorities have been obtained and completed.

PREVIOUS A-SHARE LISTING APPLICATION ATTEMPTS

We applied for the listing of our shares on the Shanghai Stock Exchange in 2004 (the "**2004 A-share listing attempt**") which was not approved by CSRC mainly due to the non-delineation of the water supply business and the real estate development business of our Group at that time. Our Directors understand the above reason for rejection based on their best knowledge, information and belief having made all reasonable inquiries, and they confirmed that we have not received written documents from CSRC on the rejection of the 2004 A-share listing attempt at that time.

In the end of 2016, we considered to apply for listing on the Shanghai Stock Exchange primarily with an aim to further develop our Group and diversify our fund-raising channels. In September 2018, we entered into an agreement with Sinolink Securities Co., Ltd. ("**Sinolink PRC**") in relation to the pre-listing application guidance (the "**2018 A-share listing attempt**"). Since our business, operation and management experienced changes since 2004, Sinolink PRC was of the view that we were able to meet the A-share listing requirements. Despite that the relevant laws, rules and regulations of CSRC do not expressly provide for demergers, precedent cases show that references are made to the requirement that the core business of the listing applicant did not substantially change in the latest three years under Applicable Opinion No. 3 for Securities and Futures Law — Administration Regulations on Initial Public Offering (《證券期貨法律適用意見第3號 —〈首次公開發行股票並上市管理辦法〉》), Sinolink PRC was of the view that the Demerger, which was completed in 2017, might constitute a major change in the core business in the latest three years. In light of this uncertainty and taken into account the efficiency in the listing application process on the Stock Exchange, in March 2019, we ceased the 2018 A-share listing attempt and therefore the pre-listing application guidance was automatically terminated.

During the pre-listing application guidance period for the 2018 A-share listing attempt, Sinolink PRC was not aware of any matters or adverse findings which have been brought to its attention and would have a material adverse implication on the Listing, or any matters that might materially and adversely affect our suitability for the Listing. On this basis and the due diligence works conducted, including interviews with our chief accountant and a representative of Sinolink PRC who participated in the 2018 A-share listing attempt, our Directors and the Sole Sponsor are not aware of any matters that need to be brought to the attention of the Stock Exchange and the SFC with respect to the 2004 A-share listing attempt and the 2018 A-share listing attempt.

OUR SUBSIDIARIES

The following sets forth the details and changes in the shareholding composition of the major subsidiaries which are material to our Group's performance.

1. Taizhou City Water

Taizhou City Water is principally engaged in the operation and management of water treatment projects of the Taizhou Water Supply System (Phase II) and possesses the health permit (衛生許可證). It was established as a limited liability company in the PRC on 30 September 2003 with an initial registered capital of RMB30.0 million.

The following table sets forth the changes in registered capital and shareholders of Taizhou City Water since its establishment and up to the Latest Practicable Date:

Date	Change	Registered share capital immediately after the change	Shareholders and shareholding percentage immediately after the change
Upon establishment	–	RMB30.0 million	(i) Our Company (62%) (ii) Wenling City Construction Integrated Development Co., Ltd.* (溫嶺市城市建設綜合開發有限責任公司) ("**Wenling City Construction**") (18%)*(Note)* (iii) Taizhou Jiaojiang Infrastructure (10%) (iv) Taizhou Luqiao Public Assets (10%)
April 2005	Increase in registered capital by RMB70.0 million	RMB100.0 million	(i) Our Company (62%) (ii) Wenling City Construction (18%)*(Note)* (iii) Taizhou Jiaojiang Infrastructure (10%) (iv) Taizhou Luqiao Public Assets (10%)
August 2011	Transfer of equity interest in Taizhou City Water by (i) Taizhou Jiaojiang Infrastructure and Taizhou Luqiao Public Assets to our Company (the "**First Transfer**"); and (ii) Wenling City Construction to Wenling Water Supply (the "**Second Transfer**")	RMB100.0 million	(i) Our Company (82%) (ii) Wenling Water Supply (18%)
September 2011	Increase in registered capital by RMB120.0 million	RMB220.0 million	(i) Our Company (82%) (ii) Wenling Water Supply (18%)

Note: Wenling City Construction is a wholly state-owned enterprise which is in turn owned by the Finance Bureau of Wenling City* (溫嶺市財政局) and is an Independent Third Party.

As advised by our PRC Legal Adviser, (i) the share transfer agreement in relation to the First Transfer has not been approved by the SASAC and no valuation appraised by independent valuers was undertaken; and (ii) records of approvals for the Second Transfer could not be located. According to the confirmation letter issued by Taizhou SASAC on 30 May 2019, the First Transfer, being a transfer between two state-owned enterprises, was legal and valid and did not give rise to any loss of state-owned assets. Taizhou SASAC further confirmed that the Second Transfer was a gratuitous transfer of state-owned shares which complied with the relevant PRC laws and regulations. Based on the above, our PRC Legal Adviser is of the view that the possibility of the above transfers being revoked is low and the defects of the above transfers have no material adverse impact on Taizhou City Water's shareholding structure and will not result in any material legal non-compliance by our Group.

2. Binhai Water

Binhai Water is principally engaged in the construction, operation and management of water diversion projects in Taizhou. It was established as a limited liability company in the PRC on 7 June 2016 with an initial registered capital of RMB50.0 million. Upon its establishment, Binhai Water was held to 51% and 49% by our Company and Taizhou City Water, a subsidiary of our Company, respectively.

Pursuant to a shareholders' resolution dated 22 September 2016, the registered capital of Binhai Water was increased from RMB50.0 million to RMB100.0 million. The additional capital of RMB50.0 million was contributed by cash contribution of RMB25.5 million and RMB24.5 million by our Company and Taizhou City Water, respectively, and was fully settled in September 2016.

3. Wenling Zeguo Water Supply

Wenling Zeguo Water Supply is principally engaged in the construction, operation and management of water diversion projects in Zeguo Town and possesses the health permit (衛生許可證). It was established as a limited liability company in the PRC on 9 November 2006 with an initial registered capital of RMB15.0 million. Since its establishment, Wenling Zeguo Water Supply has been held as to 100% by our Company.

Pursuant to a shareholders' resolution dated 30 November 2009, the registered capital of Wenling Zeguo Water Supply was increased from RMB15.0 million to RMB30.0 million. The additional capital of RMB15.0 million was contributed by the Company by cash and was fully settled in November 2009.

4. Taizhou South Bay Water Supply

Taizhou South Bay Water Supply is principally engaged in the construction, operation and management of water diversion projects in Yuhuan City. It was established as a limited liability company in the PRC on 13 March 2018 with an initial registered capital of RMB50.0 million. Upon its establishment, Taizhou South Bay Water Supply was held as to 60% and 40% by our Company and Yuhuan Water Group, respectively.

Pursuant to a shareholders' resolution dated 30 August 2018, the registered capital of Taizhou South Bay Water Supply was increased from RMB50.0 million to RMB100.0 million. The additional capital of RMB50.0 million was contributed by cash contribution of RMB30.0 million and RMB20.0 million by our Company and Yuhuan Water Group, respectively, and was fully settled in October 2018.

Yuhuan Water Group is principally engaged in the construction, investment and management of water infrastructure projects in Yuhuan City. It is a wholly state-owned enterprise established in the PRC with limited liability on 27 August 2003. As of the Latest Practicable Date, it was an indirect wholly-owned subsidiary of the Finance Bureau of Yuhuan City* (玉環市財政局).

5. Taizhou Environmental Development

Taizhou Environmental Development was established as a limited liability company in the PRC on 5 September 2018 with an initial registered capital of RMB10.0 million and a registered business scope of investment in and development of waste incineration and waste treatment projects in the PRC. Since its establishment, Taizhou Environmental Development has been held as to 100% by our Company and had no business activity.

Management of our subsidiaries

The business of our Group has been managed and operated by our core management team comprising our executive Directors, namely, Mr. Yan Chuanhua and Mr. Zhang Junzhou. Each of Mr. Yan and Mr. Zhang has also been acting as the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water. During the Track Record Period, due to the policy of the Taizhou Municipal Party Committee Organization Department* (台州市委組織部) which prohibits a director to serve on the board of directors of more than three companies within our Group, Mr. Yan and Mr. Zhang had not served as directors of other subsidiaries, namely, Taizhou City Water, Wenling Zeguo Water Supply and Taizhou Environmental Development.

Notwithstanding the above, Mr. Yan and Mr. Zhang have been actively engaged in the management of all our subsidiaries on the Board level. For instance, all of the existing directors and supervisors of Wenling Zeguo Water Supply and Taizhou Environmental Development were nominated and recommended by our Board to the shareholder's meetings of the respective subsidiary for appointment and their appointment was then approved pursuant to the shareholder's resolutions signed by Mr. Yan in his capacity as the legal representative of our Company. Further, all of the significant decisions-making of all of our subsidiaries would need to be considered and approved by our Board prior to such matters being approved by the board of directors of the relevant subsidiary and our Board holds regular meetings with the board of directors of all subsidiaries. Examples of such matters include the passing of annual budget and work plan; the appointment of senior management; the amendment of the relevant subsidiary's articles of association; and transactions in the ordinary course of business of the relevant subsidiary, such as provision of guarantee.

Accordingly, the overall strategic and the key decisions-making of all of our subsidiaries are made by our Board.

CONFIRMATION FROM OUR PRC LEGAL ADVISER

Our PRC Legal Adviser has advised that (i) all applicable regulatory approvals and consents have been obtained and the establishment, transfer of equity interests and increase in registered capital in respect of our Company and our subsidiaries were legally and properly completed; and (ii) each of our Company and our subsidiaries is a company duly established and validly existing under the relevant PRC laws and regulations.

INFORMATION OF OUR FOUNDERS

The following sets forth the details of our Founders.

1. Taizhou Urban Construction

Taizhou Urban Construction is principally engaged in investment and management of infrastructure construction projects and operation of state-owned assets.

Taizhou Urban Construction is a wholly state-owned enterprise established in the PRC with limited liability on 13 November 1998. As of the Latest Practicable Date, it was owned as to 80% and 20% by Taizhou SCOG and Taizhou Financial Investment, which was in turn wholly-owned by Taizhou SCOG, respectively. Taizhou SCOG was wholly-owned by Taizhou SASAC.

As of the Latest Practicable Date, Taizhou Urban Construction directly held 28.83% shareholding interest in our Company.

2. Zhejiang Huangyan Financial Development

Zhejiang Huangyan Financial Development is principally engaged in provision of loans, joint ventures and trust investments.

Zhejiang Huangyan Financial Development is a wholly people-owned enterprise (全民所有制企業) established in the PRC on 12 April 1993. As of the Latest Practicable Date, it was wholly-owned by Huangyan SAOG, which was in turn wholly-owned by Huangyan Finance Bureau.

As of the Latest Practicable Date, Zhejiang Huangyan Financial Development directly held 17.79% shareholding interest in our Company.

3. Taizhou Jiaojiang Infrastructure

Taizhou Jiaojiang Infrastructure is principally engaged in investment and management of infrastructure construction projects and operation of state-owned assets.

Taizhou Jiaojiang Infrastructure is a wholly state-owned enterprise established in the PRC with limited liability on 12 March 1996. As of the Latest Practicable Date, it was wholly-owned by Jiaojiang Finance Bureau.

As of the Latest Practicable Date, Taizhou Jiaojiang Infrastructure directly held 14.82% shareholding interest in our Company.

4. Zhejiang Taixin

Zhejiang Taixin is principally engaged in asset management, corporate management services and financial advisory and consulting services.

Zhejiang Taixin is a limited liability company established in the PRC on 9 May 2002. As of the Latest Practicable Date, it was owned as to 60% and 40% by Zheshang Asset Management and Taizhou SAIG, respectively. Zheshang Asset Management is principally engaged in asset management, investment, restructuring, corporate management and financial consulting services. Please refer to "Shareholding and corporate structure — Our shareholding structure immediately following the completion of the Global Offering" in this section for details of the shareholders of Zheshang Asset Management and Taizhou SAIG.

As of the Latest Practicable Date, Zhejiang Taixin directly held 13.41% shareholding interest in our Company.

5. Zhejiang Zhijiang

Prior to its deregistration on 1 September 2015, Zhejiang Zhijiang was principally engaged in property development.

Zhejiang Zhijiang is a limited liability company established in the PRC on 29 July 1994. Zhejiang Zhijiang ceased to be our Shareholder in September 2008 by transferring all its 13.41% shareholding interest in our Company to Lipin Enterprise and Lanping Jinghong. Please refer to "Our corporate development — Share transfers between 2002 and 2011" in this section for details of the transfer.

6. Taizhou Luqiao Financial Development

Taizhou Luqiao Financial Development is principally engaged in property investment.

Taizhou Luqiao Financial Development is a wholly state-owned enterprise established in the PRC with limited liability on 10 March 1996. Taizhou Luqiao Financial Development ceased to be our Shareholder in March 2011 by transferring all its 11.74% shareholding interest in our Company to Taizhou Luqiao Public Assets. Please refer to "Our corporate development — Share transfers between 2002 and 2011" in this section for details of the transfer.

7. Taizhou Hydropower

Taizhou Hydropower is principally engaged in development and management of water supply and hydropower projects.

Taizhou Hydropower is a wholly state-owned enterprise established in the PRC with limited liability on 20 January 1999. Taizhou Hydropower ceased to be our Shareholder in December 2003 by transferring all its 6.70% shareholding interest in our Company to Taizhou Urban Construction. Please refer to "Our corporate development — Share transfers between 2002 and 2011" in this section for details of the transfer.

INFORMATION OF OUR EXISTING SHAREHOLDERS

As of the Latest Practicable Date, the shareholding interest in our Company was held by Taizhou Urban Construction, Zhejiang Huangyan Financial Development, Taizhou Jiaojiang Infrastructure, Zhejiang Taixin, Taizhou Luqiao Public Assets, Qufeng Holdings and Lipin Sanmin.

The following sets forth the details of our existing Shareholders who are not our Founders:

1. Taizhou Luqiao Public Assets

Taizhou Luqiao Public Assets is principally engaged in investment in infrastructure construction projects, construction of state-invested projects and sale of building materials.

Taizhou Luqiao Public Assets is a wholly state-owned enterprise established in the PRC with limited liability on 29 June 1998. As of the Latest Practicable Date, it was wholly-owned by Luqiao SAAC.

As of the Latest Practicable Date, Taizhou Luqiao Public Assets directly held 11.74% shareholding interest in our Company.

2. Qufeng Holdings

Qufeng Holdings is principally engaged in industrial investment.

Qufeng Holdings is a limited liability company established in the PRC on 19 August 2010. As of the Latest Practicable Date, it was owned as to 80% and 20% by Mr. Yang Yide (楊義德) and Mr. Yang Feng (楊峰), respectively. Mr. Yang Yide is a non-executive Director of our Company and Mr. Yang Feng is an Independent Third Party.

As of the Latest Practicable Date, Qufeng Holdings directly held 6.705% shareholding interest in our Company.

3. Lipin Sanmin

Lipin Sanmin is principally engaged in design, production and agency of advertisements, public relations and marketing activities.

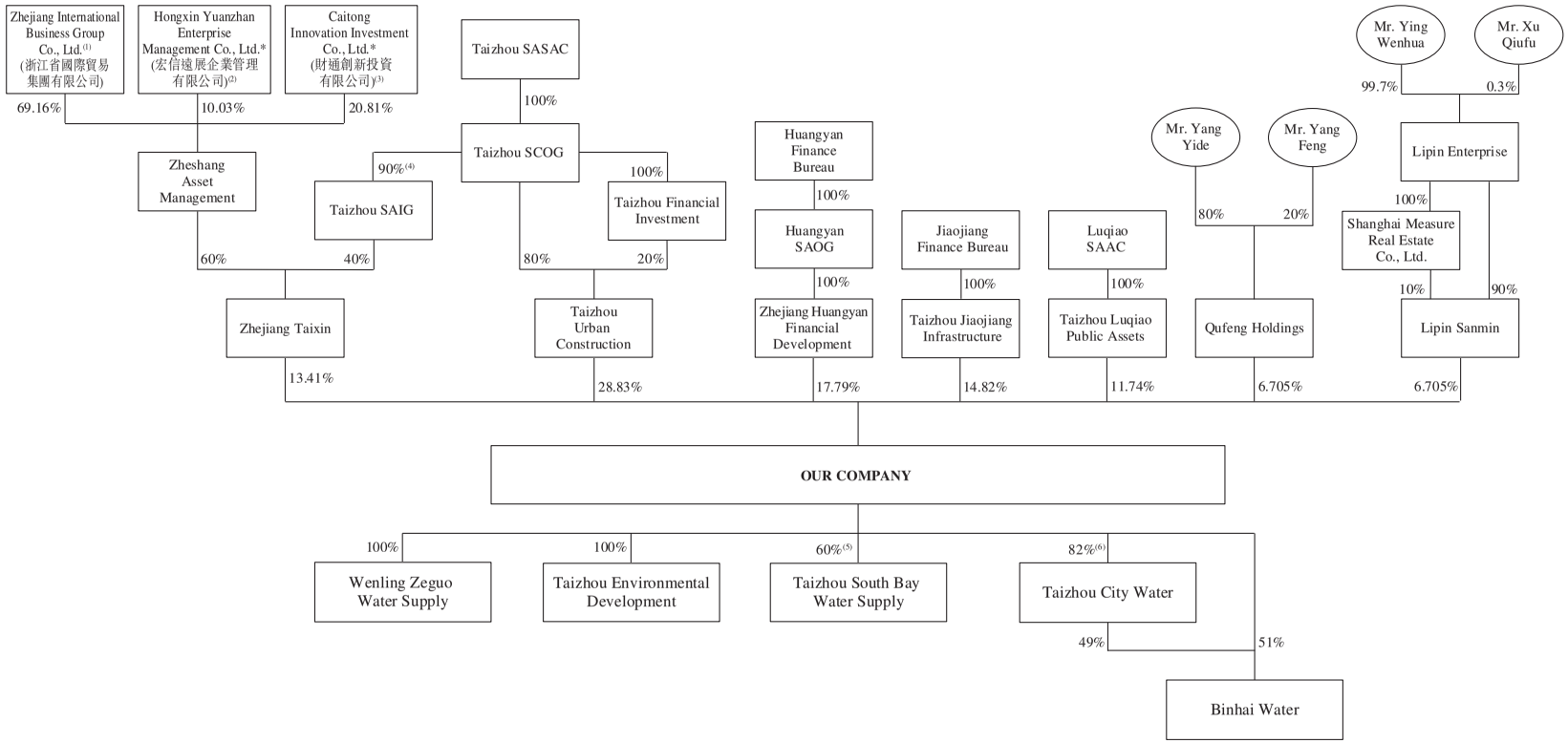
Lipin Sanmin is a limited liability company established in the PRC on 2 December 2009. As of the Latest Practicable Date, it was owned as to 90% and 10% by Lipin Enterprise and Shanghai Measure Real Estate Co., Ltd. (上海力品置業有限公司), a wholly-owned subsidiary of Lipin Enterprise, respectively. Lipin Enterprise was owned as to 99.7% and 0.3% by Mr. Ying Wenhua (應文華) and Mr. Xu Qiufu (許秋甫), respectively. Mr. Ying Wenhua and Mr. Xu Qiufu are Independent Third Parties.

As of the Latest Practicable Date, Lipin Sanmin directly held 6.705% shareholding interest in our Company.

SHAREHOLDING AND CORPORATE STRUCTURE

Our shareholding structure immediately prior to the Global Offering

The following chart sets forth our shareholding structure as of the Latest Practicable Date:



Notes:

(1) The 100% equity interest in Zhejiang International Business Group Co., Ltd. is directly owned by the State-owned Assets Supervision and Administration Commission of Zhejiang Province* (浙江省人民政府國有資產監督管理委員會), which is a PRC Government Body.

(2) Hongxin Yuanzhan Enterprise Management Co., Ltd. is an indirect wholly-owned subsidiary of Far East Horizon Ltd., a company listed on the Stock Exchange (stock code: 3360), and is an Independent Third Party.

(3) Caitong Innovation Investment Co., Ltd. (formerly known as Zhejiang Caitong Innovation Investment Co., Ltd.* (浙江財通創新投資有限公司)) is a wholly-owned subsidiary of Caitong Securities Co.,Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601108), and is an Independent Third Party.

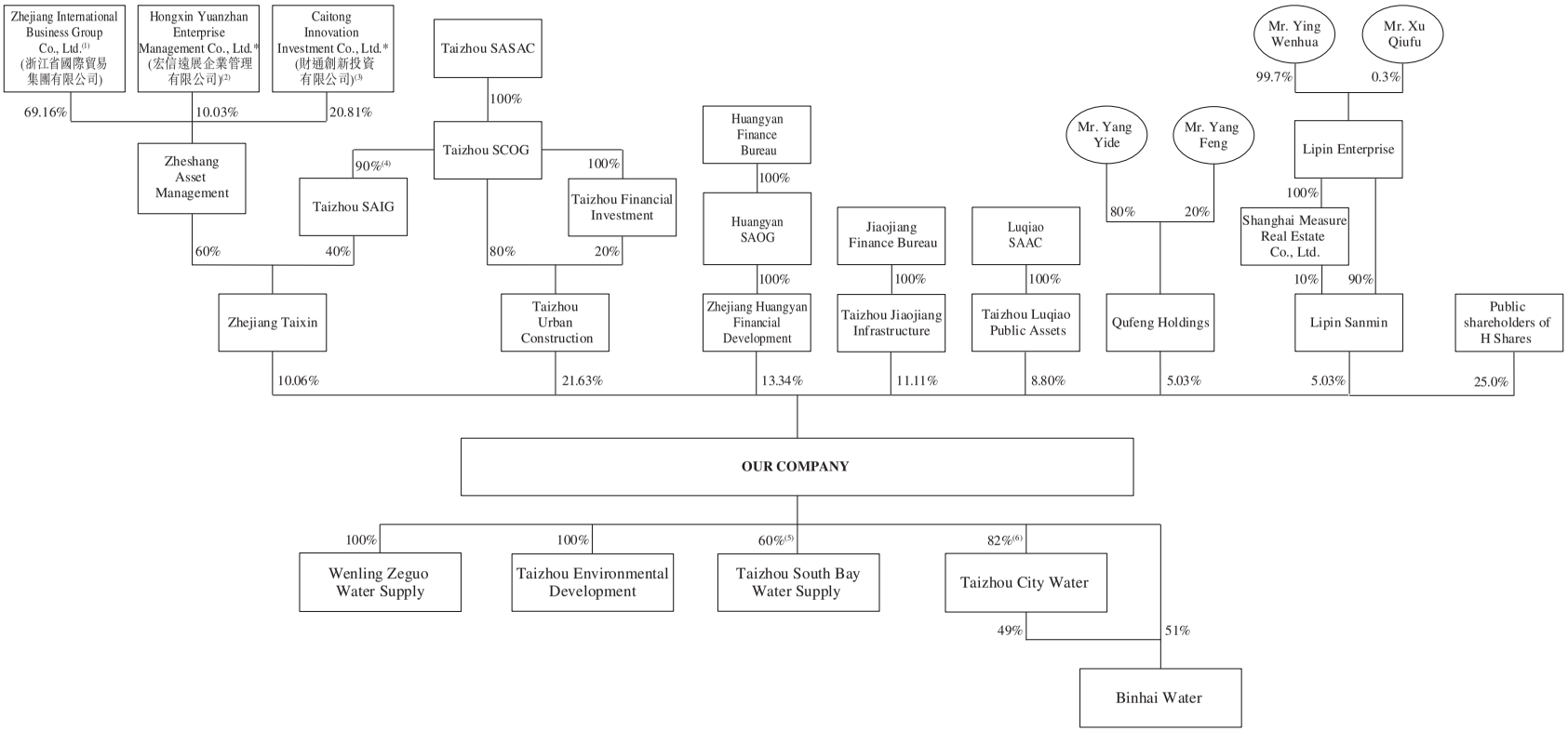
(4) The remaining 10% equity interest in Taizhou SAIG is owned by Zhejiang Financial Development Corporation* (浙江省財務開發公司), a wholly state-owned enterprise which is in turn owned by Zhejiang Provincial Department of Finance (浙江省財政廳).

(5) The remaining 40% equity interest in Taizhou South Bay Water Supply is owned by Yuhuan Water Group.

(6) The remaining 18% equity interest in Taizhou City Water is owned by Wenling Water Supply.

Our shareholding structure immediately following the completion of the Global Offering

The following chart sets forth our shareholding structure immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

(1) – (6) Please refer to the details contained in the preceding pages.

OVERVIEW

We are a leading water supply service provider in Taizhou supplying raw water and municipal water. According to the Frost & Sullivan Report, we ranked (i) fifth and first in raw water supply in Zhejiang Province and Taizhou, with a market share of 3.8% and 43.8%, respectively; and (ii) first in municipal water supply in Taizhou, with a market share of 35.1%, both in terms of water supply capacity in 2018. We also supply tap water directly to end-users and engage in the installation of the water pipelines for distributing tap water to our end-users.

Over the years, we have established a dominant position in Taizhou as a prominent water supply enterprise through the operation and management of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), which are two pivotal water supply systems in Taizhou having an aggregate raw water supply capacity of 740,000 tonnes per day and supply raw water and municipal water in the South Area of Taizhou. According to the Frost & Sullivan Report, the South Area of Taizhou had a total population of 3.97 million, accounting for 64.7% of the total population of Taizhou in 2018. For details of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), please refer to "Business — Our water supply systems" of this section. We own and have been granted the rights to operate and manage the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). We are primarily responsible for the full-range operation and management services of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) from obtaining the raw water intake rights from the local government, continuously maintaining and repairing the infrastructure and facilities of the water supply systems to ensuring a reliable and adequate water supply to our customers. Our Directors confirmed that no concession agreements are entered into by our Group.

In relation to raw water supply, we draw water from Changtan Reservoir and directly supply the raw water to municipal water service providers who will process the raw water in water treatment plants and deliver the water to other municipal water service providers or end-users. We also operate our own water treatment plant, namely Taizhou Water Treatment Plant, to process raw water drawn from Changtan Reservoir into municipal water. We then sell the municipal water to our customers, which include municipal water service providers and end-users. Wenling Zeguo Water Supply, our subsidiary, also supplies tap water to end-users in Zeguo Town of Wenling City.

Our revenue increased from RMB410.1 million for the year ended 31 December 2016 to RMB462.9 million for the year ended 31 December 2017 and further increased to RMB504.3 million for the year ended 31 December 2018, representing a CAGR of 10.9%. Our revenue decreased from RMB243.3 million for the six months ended 30 June 2018 to RMB225.8 million for the six months ended 30 June 2019 primarily as a result of the reduction of the sales volume of our water in the corresponding period.

The table below sets out the breakdown of revenue and percentage of total revenue derived from our Continued Operations by product/service categories for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
							(unaudited)			
Water supply										
Raw water	98,965	24.1	101,138	21.8	112,415	22.3	56,221	23.1	55,559	24.6
Municipal water	269,394	65.7	314,013	67.8	340,049	67.4	164,730	67.7	146,304	64.8
Tap water	35,609	8.7	41,314	8.9	44,869	8.9	20,456	8.4	19,970	8.8
Installation services	6,085	1.5	6,436	1.5	6,930	1.4	1,881	0.8	3,953	1.8
Total	**410,053**	**100.0**	**462,901**	**100.0**	**504,263**	**100.0**	**243,288**	**100.0**	**225,786**	**100.0**

We have recently commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). Each of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) was accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目). For details, please refer to "Business — Our water supply systems" of this section.

During the Track Record Period, certain of our subsidiaries also engaged in the property development and leasing business, the construction of public works and the landscape businesses. To streamline our Group's structure and focus on our core business of water supply, we by way of demerger and disposal of equity interests ceased to operate the above businesses. For details, please refer to "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital in 2017" and "History and corporate structure — Our corporate development — Disposal of non-core business" of this prospectus.

OUR COMPETITIVE STRENGTHS

We believe we will continue to maintain our leading position in the water supply industry in Taizhou by virtue of the following competitive strengths:

We have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity

As a water supply service company, it is crucial that we have a reliable and quality water source. Since the operation of the Taizhou Water Supply System (Phase I), the water was drawn from Changtan Reservoir which is located in Huangyan District, Taizhou. It was built in the period from the 1950s to the early 1960s on the upstream of Yongningjiang. The principal functions of Changtan Reservoir are for water supply, flooding control and irrigation with the ancillary uses for hydropower and aquaculture. According to the Frost & Sullivan Report, Changtan Reservoir is the largest reservoir in Taizhou in terms of storage capacity. Pursuant to the Environmental Quality Standards for Surface Water (《地表水環境品質標準》GB3838-2002), surface water is classified into five

categories in terms of the limit value of several parameters. According to the Taizhou Water Resources Bulletin 2017, the water of Changtan Reservoir is classified into Category I, which is the highest category among surface water under the Environmental Quality Standards for Surface Water (《地表水環境品質標準》GB3838-2002). According to the Frost & Sullivan Report, the total water storage volume of Changtan Reservoir as at the end of 2018 was 379.3 million tonnes ranking first among all the large and medium size reservoirs with water supply function in Taizhou.

Pursuant to the Approval on Water Supply Right of Zhejiang City Development Company Limited (Tai Zheng Han [2004] No.2) issued by the People's Government of Taizhou on 8 January 2004 (《關於明確浙江城市發展股份有限公司供水專營權等的批覆》(台政函[2004]2號)), we have been granted the right to draw water from Changtan Reservoir for the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) since 2004. No specific period and maximum volume of water can be drawn are stated for the exclusive right granted nor are there any conditions. We also renewed the relevant Water Intake Permit (取水許可證) in May 2019.

Pursuant to the Approval by Zhejiang Water Department on Water Intake in relation to the Taizhou Water Supply System (Zhe Shui Xu [2016] No. 46) (《浙江省水利廳關於同意台州市引水工程取水許可申請的批覆》(浙水許[2016]46號)) on 3 August 2016, we are granted the right to draw water from Changtan Reservoir (including water drawn from Zhuxi Reservoir (朱溪水庫)) for the Taizhou Water Supply System (Phase III) with a daily water intake volume of 330,000 tonnes and an annual water intake volume of 100 million tonnes.

Pursuant to the Approval on Taizhou South Bay Water Diversion Project Report (Tai Shui Li [2018] No. 67) (《台州市南部灣區引水工程項目水資源論證報告》的批覆 (台水利[2018]67號)) issued by Taizhou Water Bureau (台州市水利局) on 18 May 2018, we are approved to draw water from Changtan Reservoir and Zhuxi Reservoir for the Taizhou Water Supply System (Phase IV) with a daily water intake volume of 150,000 tonnes.

With the exclusive right granted by the local government to draw water directly from Changtan Reservoir, we are well-positioned to supply water of good quality to our customers in a reliable and safe manner.

We are a leading water supply service provider, supplying raw water and municipal water and possess strong track record in the water supply industry in Taizhou

We are a leading water supply service provider, supplying raw water and municipal water in Taizhou. According to the Frost & Sullivan Report, we ranked fifth and first in raw water supply in Zhejiang Province and Taizhou, respectively, and ranked first in municipal water supply in Taizhou in terms of supply capacity in 2018.

We currently own and operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) and supply raw water and municipal water to our customers through these two water supply systems. These two water supply systems run from Changtan Reservoir through the South Area of Taizhou. The population of the South Area of Taizhou was 3.97 million in 2018 representing 64.7% of the total population of Taizhou, according to the Frost & Sullivan Report.

Leveraging on our strong foothold in the water supply industry in Taizhou, we plan to further enhance and expand our downstream business to provide more tap water directly to end-users. Apart from supplying raw water and municipal water to municipal water service providers, upon completion of the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we plan to apply for the relevant permit to supply tap water directly to end-users. In addition, the Taizhou Water Supply System (Phase III) and the Water Supply System (Phase IV) have been designed to cater for the potential growth in demand for water in the long term. Please refer to "Business — Our water supply systems" of this prospectus.

We believe that our leading position in the water supply industry in Taizhou not only provides us with a stable source of revenue, but also allows us to effectively develop and expand our business.

We are in an industry of high entry barrier and face relatively low competition, and with our established track record in the industry, we are well-positioned to compete with our competitors

It is a pre-requisite for a company to obtain the authorisation from the local government in order to enter into the water supply industry. In particular, as a raw water supplier, the water intake right is an indispensable right to obtain before a new company entering into the industry. Since water supply bears the social responsibility and benefit, it is important to ensure a reliable and safe supply, and at the same time with minimum impact on the environment to avoid duplicate construction of infrastructures and related facilities, normally, the water intake right is exclusive and of long term. We have been granted the exclusive right by the People's Government of Taizhou to draw water from Changtan Reservoir for our water supply systems.

Apart from the government authorisation, construction of the water supply network infrastructures and related facilities require a substantial amount of capital investment with a breakeven period of more than 10 years. The heavy initial investment amount may pose challenges on new entrants' capability in raising sufficient funds for the construction, maintenance works, and operation and business sustainability.

We have been in the water supply industry in Taizhou for more than 20 years since the operation by our Predecessor Company in the Taizhou Water Supply System (Phase I) and have obtained the necessary government authorisation and licences to intake and supply raw water and municipal water. In May 2015 and April 2018, our project proposals in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) were accepted by Taizhou DRC, respectively. Over years of operations, we are able to derive profits from the projects we invested and generate cash to fund our operation, and our established reputation and leading position in the industry offer us the benefit in raising external funds to finance our new projects. Our Directors believe that we are well-positioned to outweigh our potential competitors.

We are able to benefit from the accelerated pace of urbanisation in the PRC and favourable government policies

According to the Frost & Sullivan Report, from 2014 to 2018, the PRC's urban population increased from 749.2 million to 831.4 million, with a CAGR of 2.6%. During the same period, the urbanisation rate in the PRC increased by 4.8%, from 54.8% to 59.6%. Frost & Sullivan forecasts that by 2023, the PRC's urban population is expected to reach 947.4 million. Under the National Plan for Promoting Healthy Urbanisation (《全國促進城鎮化健康發展規劃》), a new-style urbanisation is expected to promote the urban-rural coordination and reasonable distribution. Accordingly, Frost & Sullivan forecasts urbanisation rate of the PRC is likely to increase gradually from 2018 to 2023, reaching 67.1% by 2023. The accelerated pace of urbanisation in the PRC is expected to lead to an increase in demand for reliable and safe water.

As a core part of the PRC's public service and environmental industry, the PRC's water industry has enjoyed strong and sustained policy support. The PRC's government has enacted a series of incentive policies such as the Thirteenth Five-Year Plan on National Municipal Infrastructure Construction (《全國城市市政基礎設施建設"十三五"規劃》) to support the development of municipal water and raw water supply market. In 2018, Zhejiang government announced the Zhejiang Greater Bay Area Construction Action Plan (《浙江省大灣區建設行動計劃》) to greatly develop the economy zone covering Hangzhou, Ningbo, Wenzhou, Huzhou, Jiaxing, Shaoxing, Zhoushan and Taizhou cities. The expected construction and economy growth in the area will significantly drive the development of water supply market to fulfill the water consumption as population increases. Following the action plan, Taizhou government issued Taizhou Bay Area Economic Development Pilot Area Construction Action Plan (《台州灣區經濟發展試驗區建設行動計劃》) to further promote the construction of a bay area in Taizhou, which in turn creates demand for the construction of water supply engineering projects.

In 2018, the Zhejiang government issued Zhejiang Province Rural Drinking Water Standards Promotion Action Plan (2018-2020) (《浙江省農村飲用水達標提標行動計劃(2018年–2020年)》) to improve the drinking water condition by conducting promotion construction works. Our Directors believe that the favourable government policies on improving drinking water condition for rural residents and the construction of potential water supply networks will provide opportunities to our Group.

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

We have a strong and experienced management with rich experience in the water supply industry. Our Chairman, Mr. Yan Chuanhua (顏傳華), who is responsible for formulating corporate strategies and overseeing the overall management of our business and operation. Mr. Yan has served our Group since 2008. He has been in the water-related business and water conservancy projects for more than 28 years and has in-depth knowledge in the water supply and conservancy industry. Our vice-Chairman, Mr. Zhang Junzhou (章君周) joined our Group in 2014. Mr. Zhang is responsible for formulating the overall strategic planning and overseeing the business and operation of our Group. Other core members of our senior managements have substantial experience in the water supply industry and engineering, corporate finance and financing and accounting matters. Some of them have served our Group since their appointment to our Predecessor Company. For further details of the experiences of our Directors and senior management, please refer to "Directors, Supervisors and senior management" of this prospectus.

OUR BUSINESS STRATEGIES

We aim to strengthen our market position as a leading raw water and municipal water supply service provider in Taizhou by pursuing the following business strategies:

Continue to expand and develop our business through the extension of the water supply networks and geographic coverage in Taizhou

According to Frost & Sullivan, the urbanisation rate of Taizhou grew from 59.5% in 2014 to 63.0% in 2018, and is expected to grow to 68.0% in 2023. With the increase in urbanisation rate, the demand for municipal water supply and raw water supply is expected to increase in the foreseeable future.

In light of the growth in urbanisation rate and implementation of supportive government policies as set out in "Business — Our competitive strengths — We are able to benefit from the accelerated pace of urbanisation in the PRC and favourable government policies" of this section, we believe that these will provide potential opportunity for us to grow.

With our market leader position and proven track record in the water supply industry in Taizhou, we believe that we have the advantage in leveraging this potential increase in demand for water supply in Taizhou and continue to grow and expand. The Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) have been approved by Taizhou DRC, and we have commenced the construction works of these two projects in February 2018 and November 2018, respectively.

These two projects are particularly launched to cater for (i) the increasing demand for water supply in the Jiaojiang District, the Luqiao District and the east of Wenling City; (ii) the anticipated demand for water supply as a result of the establishment of increasing economic activities in the Taizhou Bay Economic Zone and the South Bay Zone.

Upon completion of the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), in the short term, our total designed raw water supply capacity of the four water supply systems operated by us is expected to reach 1,220,000 tonnes per day after the completion of the construction of Zhuxi Reservoir and in the short term, representing an increase of 64.9% from the designed total raw water supply capacity of the current two water supply systems, and our total designed municipal water supply capacity is expected to reach 750,000 tonnes per day, representing an increase of 104.9% from the designed total municipal water supply capacity of the current two water supply systems. In the long term, our total designed raw water supply capacity of the four water supply systems operated and managed by us is expected to reach 2,040,000 tonnes per day, representing an increase of 175.7% from the designed total raw water supply capacity of the current two water supply systems, and our total designed municipal water supply capacity is expected to reach 1,450,000 tonnes per day, representing an increase of 296.2% from the designed total municipal water supply capacity of the current two water supply systems. These two new water supply systems will further enhance our leading position in the water supply industry in Taizhou. Upon completion of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we plan to apply for the relevant permit to supply tap water directly to end-users by utilising the municipal water supply capacity of these two new systems, and our tap water supply capacity is to be approved by the relevant government authority.

The Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) are two important water supply systems and each of them was accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目). These two water supply systems are launched in parallel with the continuing and increasing economic activities in Taizhou to supply water to satisfy the anticipated demand for water.

Based on the Industry Development Plan of Taizhou Bay (台州灣區產業發展規劃) (the "**Development Plan**") issued by Taizhou DRC and the Policy Research Division of Taizhou Municipal Committee of the Communist Party of China in May 2019, a plan is launched to enhance the development of regions along the Taizhou Bay, comprising the Taizhou Bay Economic Zone and the South Bay Zone, situating in the eastern part of Taizhou and Yuhuan City, respectively. As part of the Development Plan, the Taizhou Bay Economic Zone will be focusing on the development of economic activities such as automobile parts and components, general aviation, new materials, and health and leisure, and the South Bay Zone will be focusing on the development of economic activities such as automobile parts and components, new energy, modern logistics, and health and leisure.

The plan also places emphasis on water resources protection and enhancing the stability and security of water supply and resolving the general water shortage issue in the Southern part of Taizhou.

In light of the Development Plan, our Directors believe that the increasing economic activities in the Taizhou Bay Economic Zone and the South Bay Zone will lead to growing demand for water.

We plan to utilise HK$175.8 million, representing 90.0% from the net proceeds of the Global Offering to fund the Taizhou Water Supply System (Phase III). Please refer to "Business — Our water supply systems" for further details of these two projects.

To further enhance and expand our business to downstream

Over the years, we have established our leading position in Taizhou in the supply of raw water and municipal water. Our customers are mainly municipal water service providers. During the Track Record Period, Wenling Zeguo Water Supply, our subsidiary, also engaged in the distribution of tap water directly to end-users. For the three years ended 31 December 2018 and the six months ended 30 June 2019, the revenue derived from our sales of tap water to end-users amounted to RMB35.6 million, RMB41.3 million, RMB44.9 million and RMB20.0 million, respectively, representing 8.7%, 8.9%, 8.9% and 8.8% of our total revenue derived from our Continued Operations for the corresponding period.

We plan to further expand our business downstream and allocate resources to enhance the business of distribution of tap water to end-users. Apart from supplying raw water and municipal water to municipal water supply service providers, we plan to apply for the relevant permit to supply tap water directly to end-users upon completion of the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

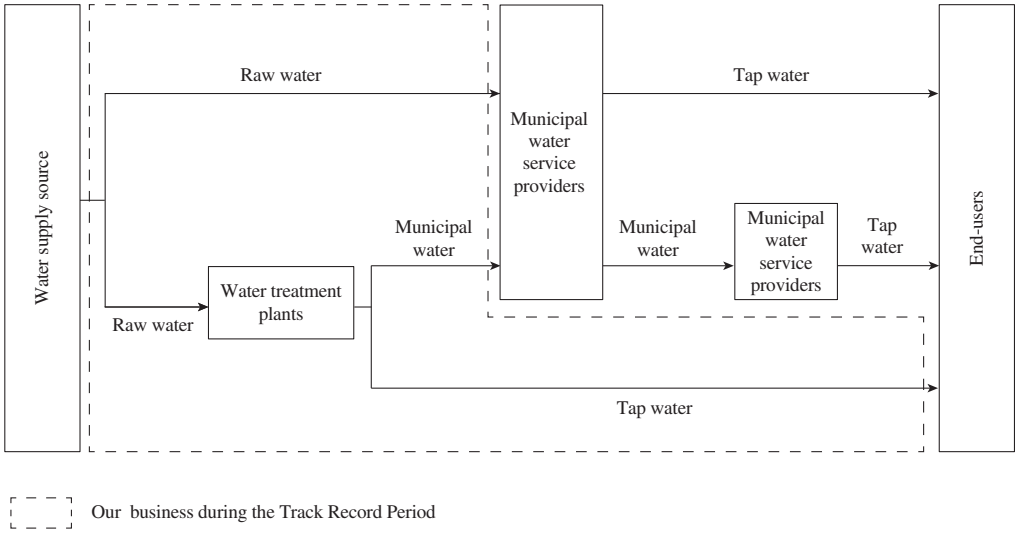
To continue consolidating our leading position in Taizhou through business expansion and providing quality services

We will continue to place effort in expanding and developing our business and consolidating our leading position in Taizhou. We will pay close attention to the water demand in Taizhou and keep ourselves abreast of relevant government policies to seize potential opportunities to grow. Since water supply is a public service bearing the social responsibility to provide reliable and safe water for consumption by the public, we have placed great emphasis on quality services, and efficient and effective management and operation. For example, we have implemented a stringent policy and procedures in maintaining and repairing the water supply networks and the related facilities, including daily on-site patron and inspection and emergency system, to avoid and minimise any interruption of water supply due to breakdown of networks and facilities. We conduct water quality check throughout the water supply and treatment process to ensure that the water quality meets the relevant water quality standard. We have implemented a digitalised system in our water treatment process and such system closely monitors the key bench indicators and would automatically make adjustments throughout our water treatment process so as to effectively control the water volume and water quality. For details, please refer to "Business — Quality control" of this prospectus.

As a public utilities service provider, it is most important for us to discharge our social responsibility to the public. We will continue to follow and abide by our mission in providing quality services, reliable and safe water, and concurrently review and enhance our operation and system from time to time.

OUR BUSINESS MODEL

The chart below sets out our business model:



During the Track Record Period, we supplied raw water, municipal water and, to a lesser extent, tap water in Taizhou through the operation and management of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). For details of these two water supply systems, please refer to "Business — Our water supply systems" of this section.

Raw water supply: We draw raw water directly from Changtan Reservoir, and usually the raw water would be transmitted through the water diversion and supply networks of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) to the pumping station whereby the raw water would be distributed to various water treatment plants of our customers, who are mainly municipal water service providers and they will process the raw water into municipal water meeting the drinkable water standard and supply the water to their customers including other municipal water service providers and end-users.

Municipal water supply: Raw water drawn from Changtan Reservoir is transmitted to our water treatment plant, namely Taizhou Water Treatment Plant, where the raw water would be processed into municipal water meeting the standard of drinkable water. The municipal water would then be supplied to our customers, mainly the municipal water service providers, who to our knowledge would sell the municipal water supplied by us to their customers including other municipal water service providers and end-users.

Tap water supply: To a lesser extent, we also directly sell tap water to the end-users, which include commercial users, government authorities, industrial users and residential households. In this connection, we also provide installation services of connecting the water pipelines to the end-users.

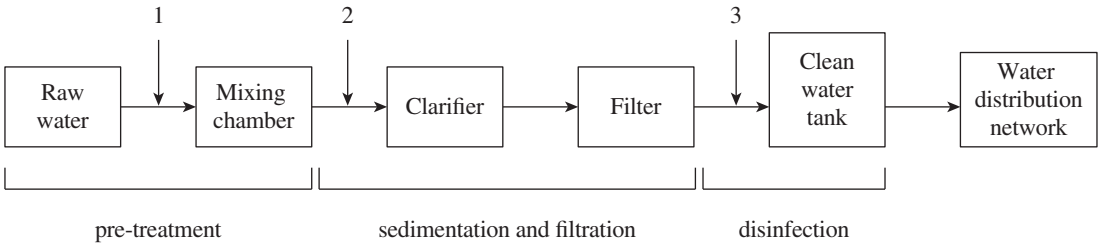
Drawing water from Changtan Reservoir

We draw water from Changtan Reservoir. Please refer to "Business — Our competitive strengths — We have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity" of this prospectus for further details. In return, we pay a raw water procurement fee and a water resources fee, which is fixed by the local pricing authorities, to the local government for water drawn from Changtan Reservoir.

Raw water treatment

Raw water is untreated water from the natural sources and contains particles, chemicals, impurities and bacteria. In relation to our municipal water supply services, we have to process the raw water into municipal water meeting certain water standards before delivering the water to our customers. The raw water we draw from Changtan Reservoir is diverted and transferred to our water treatment plant by tunnels and water pipelines to undergo purification and filtration. As of the Latest Practicable Date, we operated and managed the Taizhou Water Treatment Plant and Zeguo Water Treatment Plant. For details of our water treatment plants, please refer to "Business — Our water supply services — Overview" of this prospectus.

The raw water is treated in our water treatment plant to remove and eliminate particles, suspended and colloidal solids, impurities, odour and bacteria. The water treatment process involves pre-treatment, sedimentation and filtration, and disinfection. The chart below sets out the major processes of our water treatment:



1 Chemicals, such as potassium permanganate ($KMnO_4$) and hydrated limes are added to remove impurities and control the pH value.
2 Coagulant is added to allow the particles in the water to coagulate.
3 Sodium hypochlorite is added to kill the bacteria in the water.

Pre-treatment: Various chemicals are added to the raw water in the mixing chamber to facilitate the subsequent treatment process. Chemicals, such as potassium permanganate ($KMnO_4$), is added to remove manganese, and hydrated lime is added to control the pH value.

Sedimentation: Raw water then is pumped to the clarifier and coagulant is added to allow the particles to coagulate. The coagulated materials and water then flow into the sedimentation chamber. In a slow settling process, the water rises to the top and overflows the clarifier and the solids settle down to the bottom.

Filtration: Water overflows into the sand filters and passes through the sand filters to filter the particles.

Disinfection: Disinfection to kill the bacteria in the water.

The disinfected water flows to the clean water tank and ready to be distributed to our customers.

Distribution of water

After the raw water is processed in our water treatment plants, the water is pumped into the water pipeline networks of our customers, or in the case of our Zeguo Water Treatment Plant and our Zeguo Service Reservoir, water is distributed to our end-users through our water distribution networks.

OUR WATER SUPPLY SERVICES

Overview

We are a leading water supply service provider in Taizhou supplying raw water and municipal water. According to the Frost & Sullivan Report, we ranked fifth and first in raw water supply in Zhejiang Province and Taizhou, respectively, and ranked first in municipal water supply in Taizhou in terms of supply capacity in 2018.

We currently own and operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). These two water supply systems run through Jiaojiang District, Huangyan District, Luqiao District, Wenling City and Yuhuan City of Taizhou. According to the Frost & Sullivan Report, in 2018, the nominal GDP of these five regions of Taizhou was RMB348.0 billion, representing 71.4% of the nominal GDP of Taizhou, and their total population of was 3.97 million, representing 64.7% of Taizhou's total population. We have obtained the approvals for and commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). For details of these water supply projects, please refer to "Business — Our water supply systems" of this prospectus.

We sell raw water, municipal water and tap water. Raw water is supplied through the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) to local municipal water service providers, and municipal water is principally supplied through the Taizhou Water Supply System (Phase II) with majority of which is sold to other local municipal water service providers. During the Track Record Period, we derived RMB99.0 million, RMB101.1 million, RMB112.4 million and RMB55.6 million, respectively, from the supply of raw water, representing 24.1%, 21.8%, 22.3% and 24.6% of our total revenue of our Continued Operations for the corresponding period, and we derived RMB269.4 million, RMB314.0 million, RMB340.0 million and RMB146.3 million, respectively, from the supply of municipal water, representing 65.7%, 67.8%, 67.4% and 64.8% of our total revenue of our Continued Operations for the corresponding period.

During the Track Record Period, Wenling Zeguo Water Supply, our wholly-owned subsidiary, also supplied tap water to the end-users, which include commercial users, government authorities, industrial users and residential households located in Zeguo Town, Wenling City. For the three years ended 31 December 2018 and the six months ended 30 June 2019, we derived RMB35.6 million, RMB41.3 million, RMB44.9 million and RMB20.0 million, respectively, from sales of tap water directly to end-users, representing 8.7%, 8.9%, 8.9% and 8.8% of our total revenue of our Continued Operations for the corresponding period.

In connection with our tap water supply services, we undertake water pipeline installation works to connect new end-users to our pipeline network and charge an installation fee for such services. During the Track Record Period, customers for installation services were mainly village committees (村委會), government authorities and property developers. The installation fees are stipulated by the local government, or through agreements with the property developers. During the Track Record Period, the water pipeline installation works were carried out by Wenling Zeguo Water Supply.

The following is a breakdown of our revenue and the percentage of total revenue of our Continued Operations by product/service categories for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
							(unaudited)			
Water supply										
Raw water	98,965	24.1	101,138	21.8	112,415	22.3	56,221	23.1	55,559	24.6
Municipal water	269,394	65.7	314,013	67.8	340,049	67.4	164,730	67.7	146,304	64.8
Tap water	35,609	8.7	41,314	8.9	44,869	8.9	20,456	8.4	19,970	8.8
Installation services	6,085	1.5	6,436	1.5	6,930	1.4	1,881	0.8	3,953	1.8
Total	**410,053**	**100.0**	**462,901**	**100.0**	**504,263**	**100.0**	**243,288**	**100.0**	**225,786**	**100.0**

For sales of raw water, we directly transfer the water drawn from the Changtan Reservoir to our customers without any treatment. For sales of municipal water, the raw water drawn from the Changtan Reservoir is processed and treated in our water treatment plant, namely Taizhou water Treatment Plant, and complies with the national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC before distributing to our customers. Through Wenling Zeguo Water Supply, we sell tap water directly to the end-users and provide the ancillary water pipeline installation services.

Our customers are mainly local municipal water supply service providers. Some of these customers are our connected persons. Please also refer to "Sales to connected persons" of this section and the "Connected transactions" section of this prospectus.

The table below sets forth the information of our purchase volume of raw water and our sales volume of raw water, municipal water and tap water, for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	(tonnes'000)	*(tonnes'000)*	*(tonnes'000)*	*(tonnes'000)*
Purchase volume	233,392	259,475	264,234	122,290
Sales volume	232,134	255,661	262,156	119,286

Our purchase volume consists of raw water drawn from Changtan Reservoir. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our purchase volume was 233.4 million tonnes, 259.5 million tonnes, 264.2 million tonnes and 122.3 million tonnes, respectively, while our sales volume was 232.1 million tonnes, 255.7 million tonnes, 262.2 million tonnes and 119.3 million tonnes, respectively. The difference in the supply volume and sales volume represented a volume loss of 0.5%, 1.5%, 0.8% and 2.5%, respectively, for the three years ended 31 December 2018 and the six months ended 30 June 2019. We believe the volume loss was caused by a number of reasons including normal

consumption during the water treatment process, tunnel/pipe leakages and malfunctions of meter readers. The increase in the volume loss for the six months ended 30 June 2019 was primarily due to damage caused to our water supply pipelines by construction works of third parties during the period resulting in leakages. During the Track Record Period, we have proactively taken various measures to reduce volume loss including increased the frequency of tunnel/pipeline checking and maintenance to detect and fix leakage point.

The sales volume stated in the above table does not include our sales of tap water to Wenling Zeguo Water Supply during the period. For the three years ended 31 December 2018, the sales volume to Wenling Zeguo Water Supply was 12.1 million tonnes, 12.5 million tonnes and 12.6 million tonnes, and the tap water sold by Wenling Zeguo Water Supply to its customers was 9.7 million tonnes, 10.5 million tonnes and 10.8 million tonnes.

The difference between water purchased and sold by Wenling Zeguo Water Supply represents the volume loss of water of Wenling Water Supply of 19.4%, 15.9% and 13.8%, respectively for the three years ended 31 December 2018, and such difference equals to the difference between the actual water supply capacity and the sales volume for the respective year. To our Directors' knowledge, certain of the water supply pipelines in villages in Zeguo town where Wenling Zeguo Water Supply supplies tap water were built before the operation of the Taizhou Water Supply System (Phase II). The wear-out and lack of sufficient maintenance of such pipelines result in the high volume loss of Wenling Zeguo Water Supply during the Track Record Period.

Our procurement of raw water

During the Track Record Period, all our raw water was sourced from Changtan Reservoir. Pursuant to the Approval on Water Supply Exclusive Right of Zhejiang City Development Company Limited (Tai Zhen Han [2004] No. 2)《關於明確浙江城市發展股份有限公司供水專營權等的批覆》(台政函[2004]2號)) issued by the People's Republic of Taizhou on 8 January 2004, we are granted the right to, among others, draw water from Changtan Reservoir for the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). According to the relevant Water Intake Permit (《取水許可證》) issued by Taizhou Water Bureau (台州市水利局), we are allowed to draw water from Changtan Reservoir up to a volume of 234.0 million tonnes per year for the year ended 31 December 2016, 2017 and 2018 and till 9 May 2019, and 280.0 million tonnes per year since 10 May 2019. The limit as set in the Water Intake Permit is set with reference to factors including our water supply capacity and/or the water demand in Taizhou. We drew a volume of 233.4 million tonnes, 259.5 million tonnes and 264.2 million tonnes of raw water from Changtan Reservoir for the three years ended 31 December 2018, respectively, representing 99.7%, 110.9% and 112.9% of the limit stated in the Water Intake Permit. According to our PRC Legal Adviser, entities or individuals shall draw water according to the approved annual water intake volume. The relevant competent government authorities would request for rectification of the non-compliance within a stipulated period. In the event of failure to rectify, a fine of more than RMB20,000 and less than RMB100,000 may be imposed, and in case of serious non-compliance, the permit may be revoked. We monitor and review the demand for water from time to time and if it is expected that the demand for water is likely to exceed the purchase limit set under the Water Intake Permit, we would apply to the local government authority to adjust and increase such limit. Due to the general average low rainfall volume in 2017 and the first half of 2018 in Taizhou, the demand for water increased resulting in an increase in the water volume drew

from Changtan Reservoir. Our Directors confirmed that we had not been fined by the relevant local government authority in respect of the water volume drawn from Changtan Reservoir during the Track Record Period.

Since the Taizhou Water Resources Bureau, the competent authority, has confirmed that no penalty would be imposed on us in respect of the water drew exceeds the limit set out in the Water Intake Permit, our Directors and our PRC Legal Adviser are of the view, and the Sole Sponsor concurs with the view that, this did not constitute a material non-compliance nor has any material impact on our Group taken as a whole.

Before our application for the Water Intake Permit, we drew water from Changtan Reservoir subject to the limit approved by the local government and Taizhou DRC as set out in the project approval documents in respect of the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). The drawing of water without the Water Intake Permit was not complied with the relevant PRC laws and regulations. According to the Taizhou Water Resources Bureau, no administrative punishment will be imposed on the facts that we drew water subject to the limit set out in the relevant project approval document before obtaining the Water Intake Permit.

We have to pay a raw water procurement fee and a water resources fee to the local government authorities for raw water drawn from Changtan Reservoir, and such fees are fixed by Taizhou DRC. For the three years ended 31 December 2018 and the six months ended 30 June 2019, the unit raw water procurement fee was RMB0.22/tonne, RMB0.22/tonne, RMB0.32/tonne and RMB0.32/tonne, respectively, and the unit water resources fee remained at RMB0.2/tonne during the Track Record Period. Our raw water procurement fee for the three years ended 31 December 2018 and the six months ended 30 June 2019 amounted to RMB63.4 million, RMB67.7 million, RMB97.2 million and RMB44.0 million, respectively, representing 23.4%, 24.4%, 31.7% and 32.6% of our total cost of sales of our Continued Operations for the corresponding period. Our total water resources fee for the three years ended 31 December 2018 and the six months ended 30 June 2019 was RMB46.7 million, RMB51.5 million, RMB52.8 million and RMB24.5 million, respectively, representing 17.2%, 18.5%, 17.2% and 18.1% of our total cost of sales of our Continued Operations for the corresponding period.

Our results of operations are directly affected by the sales volume of water supply, which was in turn driven by demand for water supply and subject to the amount of water we are allowed to draw from Changtan Reservoir under the Water Intake Permit. Please also refer to "Risk factors — The actual supply volume of raw water and municipal water is subject to factors beyond our control, and the sales volume of our water is subject to water storage in reservoirs, restrictions of the downstream water supply capacity and climate factors" of this prospectus.

Salient terms of agreements

In respect of the supply of raw water and municipal water, we enter into water supply agreements (供用水合同) with our major customers, and which include the following major terms:

Type of water supplied:	raw water or municipal water
Unit price:	according to the fee fixed by the local pricing authorities
Sales volume measurement:	— as per the stipulated meter readers — both parties shall jointly inspect and check the measurement facility on a quarterly basis/at fixed period — the parties shall re-verify any measurement discrepancy. Upon disagreement, the verification result by the measurement facility manufacturer/third party will be final. Any surplus is to be refunded, and any shortfall is to be paid.
Settlement of fee:	in arrear on a monthly basis
Obligations of the parties:	We have to, among others: — supply raw water or municipal water on a continuous and stable basis — (in case of raw water) promptly notify the customer if the turbidity exceeds the NTU stipulated in the agreements — (in case of municipal water) ensure the water complies with the national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC Our customer has to, among others: — make payment according to the terms of the agreement — check and maintain its measurement facility

Rights of the parties:	In case of disruption in water supply is caused by, among others, facility damage, the defaulting party has to compensate the loss of the non-defaulting party, save such disruption is caused by *force majeure* or acts of government
Term of the agreement:	the agreements are valid until termination, and without a specific expiration date

Owing to the demand for municipal water subject to factors including the amount of rainfall in the particular year and the population growth in certain region, the water supply agreements we entered into with our customers do not expressly specify the volume of water to be supplied and purchased. Supply of and demand for water are subject to factors which are beyond the control of us and our customers. As a water service provider, we have to ensure a secured supply of water for our customers. The demand for water varies among the regions and is affected by different external factors. When comparing with the per capita water resource of Zhejiang Province and China, Taizhou is facing serious water scarcity issue. As such, we have to allocate our water supply in an efficient manner among our customers across different regions to ensure a balanced supply and avoid water wastage. In a year with less rainfall volume, the demand for our water in regions with less natural water resources will increase and regions with more natural water resources may require less water. A fixed water supply volume stated in the agreements with our customers will deter us from adjusting and balancing the water supply volume among the regions in which our customers operate. Our Directors believe that the arrangement with no fixed water supply volume with our customers provides us the flexibility in allocating and adjusting the water supply volume to various regions by taking into account factors such as the actual rainfall volume, the availability of natural water resources in the region and the unexpected change in demand and emergent incidents, such as broken down of water supply facilities of our customers, and this flexible arrangement offers the benefits of balancing the supply and demand of water to ensure water supply security, and at the same time achieve water conservation through minimizing the situation of surplus water supply to avoid any waste of water. We understand that our customers may purchase water from other small water treatment plants and these water treatment plants may draw water from reservoirs of small to medium sizes. In a year of plentiful rainfall volume, the small-to-medium size reservoirs are able to supply water to the other small water treatment plants and therefore the water volume purchased by our customers from us may be affected.

The agreements with our customers are on an non-exclusive basis and valid until termination, without a specific termination date. Our Directors confirmed that during the Track Record Period, there was no material disruption in water supply caused by defaults of our Group or our customers, and there were no material disputes between our Group and our customers.

Pricing

Our selling prices of raw water, municipal water and tap water are fixed by local pricing authorities, and we have to sell our raw water, municipal water and tap water at such fixed prices. Though we may be able to participate in and provide our views during the price-fixing process, the selling prices finally fixed may be less than we expect resulting in a lower profit

margin than we prefer. When fixing the prices, the local pricing authorities have to take into account the costs factors. According to the relevant laws and regulations, water supply service providers may not apply for a review of the prices fixed by the local pricing authorities. However, a water service provider may apply for a price adjustment if it meets certain conditions including it still suffers losses with government subsidies. In fixing the selling prices, to our Directors' knowledge, the local pricing authorities may consider factors including the costs incurred in supplying water, tax amount, sales volume of water and estimated profit to the water service providers. For further details, please refer to "Regulatory overview — Pricing" and "Risk factors — The raw water procurement fee and the water resources fee we pay to the local government authorities for water drawn from Changtan Reservoir and the unit price of water we sell to our customers is fixed by the local pricing authorities and subject to change beyond our control" of this prospectus.

According to the Frost & Sullivan Report, water service providers in Wenling City and Yuhuan City may sell raw water at prices lower than those of our Group because some of these water service providers may draw water from small-to-medium size reservoirs situated in their cities and therefore reducing the length of, and costs in maintaining their water supply networks to their customers. This in turn place these water service providers in a position to offer lower prices than ours.

The table below sets out the applicable selling prices of our raw water, municipal water and tap water during the Track Record Period. The prices in the table below include water resources fee but exclude sewage treatment fee which is collected on behalf of the competent authority.

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	RMB/tonne	*RMB/tonne*	*RMB/tonne*	*RMB/tonne*
Raw water	0.527–1.667	0.527–1.667	0.627–1.767	0.627–1.767
Municipal water	2.37–2.52	2.37–2.52	2.47–2.62	2.47–2.62
Tap water				
– Residents	3.5	3.9–7.8	3.9–7.8	4.0–12.0
– Non-residents	4.1–4.2	4.6	4.6	4.7
– Water for special purpose	4.8	7.0	7.0	14.1

Raw water and municipal water

The selling prices for raw water and municipal water in 2016 and 2017 are based on Notice 210 which came into effect on 1 January 2016, and the selling prices for raw water and municipal water in 2018 and the six months ended 30 June 2019 are based on Notice 228 which came into effect from 1 January 2018.

The selling prices of raw water and municipal water fixed by the local government are different by companies, and the price ranges in the above table show the lowest selling price and the highest selling price among the companies to whom we sell.

Tap water

The selling prices for tap water in 2016 and up to 30 June 2017 are based on the Notice 5 issued in April 2010. The selling prices for tap water from 1 July 2017 are based on Notice 1 which came into effect on 1 July 2017, and the selling prices for tap water from 1 January 2019 are based on Notice 4 which came into effect on 1 January 2019.

The price ranges for residents set out in the table above for tap water refer to the prices for level 1, level 2 and level 3 residents, which are categorised by water volume consumed per month.

OUR WATER SUPPLY SYSTEMS

The table below sets out the brief details of the water supply systems operated and managed by us and water supply systems under construction:

Completed water supply systems

Project	Type of water supplied	Designed raw water supply capacity	Designed municipal water supply capacity	The network	Major infrastructure and facilities	Commencement date of construction	Date of trial operation
Taizhou Water Supply System (Phase I)	Raw water	The designed water diversion capacity is 280,000 tonnes per day, and the process capacity of the Huangyan Pumping Station is 250,000 tonnes per day. Subject to the limitation of the process capacity of the Huangyan Pumping Station, the designed water supply capacity of this system is calculated based on 250,000 tonnes per day.	Not applicable	Water drawn from Changtan Reservoir is diverted to the Huangyan Pumping Station whereby water pressure is increased and then transferred east to water treatment plants in Jiaojiang District, Huangyan District and Luqiao District and south to the pumping station in Luqiao District and further to the Zeguo Water Treatment Plant.	Water transmission tunnels (隧洞) /pipelines, the Huangyan Pumping Station	1993	1995

Project	Type of water supplied	Designed raw water supply capacity	Designed municipal water supply capacity	The network	Major infrastructure and facilities	Commencement date of construction	Date of trial operation
Taizhou Water Supply System (Phase II)	Raw water and municipal water	The designed raw water supply capacity is 490,000 tonnes per day, of which 110,000 tonnes per day is to be supplied to Huangyan District and 380,000 tonnes per day is diverted to Taizhou Water Treatment Plant.	The designed water supply capacity of Taizhou Water Treatment Plant is 366,000 tonnes per day.	This water supply system covers Huangyan District, Jiaojiang District, Luqiao District, with the addition of Wenling City and Yuhuan City. Raw water drawn from Changtan Reservoir is (i) diverted to Taizhou Water Treatment Plant to process; or (ii) sold to our customer. Municipal water from the Taizhou Water Treatment Plant is delivered to Jiaojiang District, Luqiao District, Wenling City and Yuhuan City.	Water transmission tunnels (隧洞) /pipelines and the Taizhou Water Treatment Plant	2004	2008

Water supply systems under construction

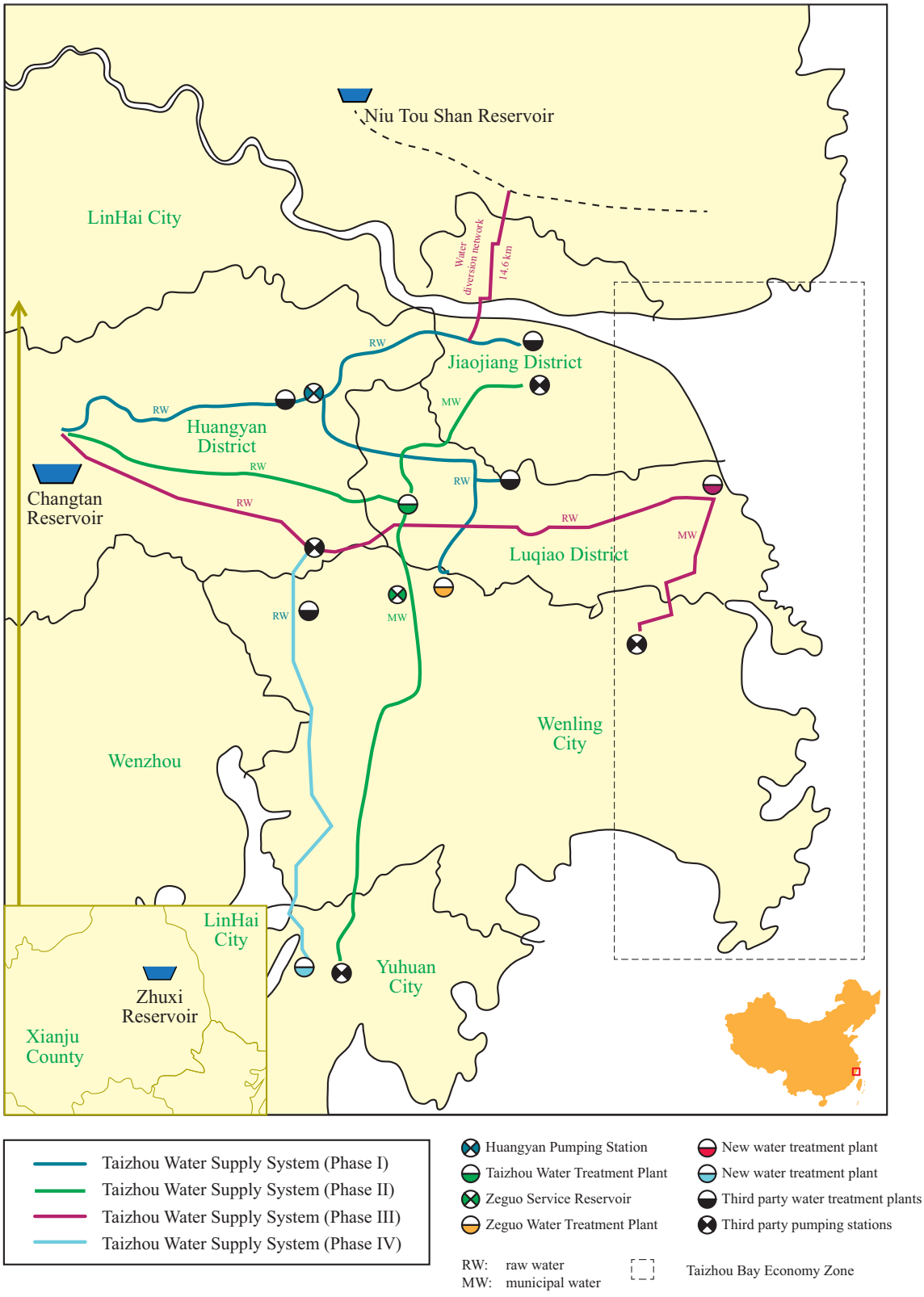
Project	Type of water supplied	Designed raw water supply capacity	Designed municipal water supply capacity	The network	Major infrastructure and facilities	Project company	Commencement date of construction	Expected completion date	Estimated total investment cost *(RMB million)*	Total costs incurred up to 30 June 2019 *(RMB million)*	Funding of the project	Expected payback period	Expected breakeven period
Taizhou Water Supply System (Phase III)	Raw water and municipal water [1]	– 250,000 tonnes per day before the construction of Zhuxi Reservoir – 330,000 tonnes per day after the construction of Zhuxi Reservoir – 1,000,000 tonnes per day in the long term	– in the short term: 284,000 tonnes per day in the short term, with 200,000 tonnes per day from the new water treatment plant and 84,000 tonnes per day from the expanded portion of the Taizhou Water Treatment Plant – in the long term: 884,000 tonnes per day in the long term, with 600,000 tonnes per day from the new water treatment plant and 284,000 tonnes per day from the expanded portion of the Taizhou Water Treatment Plant	The water supply system draws water from Changtan Reservoir and, upon completion of its construction both Changtan Reservoir and Zhuxi Reservoir and supplies water to the Taizhou Bay Economic Zone, Linhai City and areas in which we have already supplied water	Water diversion tunnels, water pipelines, a new water treatment plant in the Taizhou Bay Economic Zone and the expansion of Taizhou Water Treatment Plant	Binhai Water	February 2018	February 2022	2,994.8	873.3	– RMB2,837.2 million to be funded by internal resources and third parties borrowings – RMB157.6 million to be funded by the net proceeds from the Global Offering	15 years	5 years
Taizhou Water Supply System (Phase IV)	Raw water and municipal water [1]	– 150,000 tonnes per day in the short term – 300,000 tonnes per day in the long term	– 100,000 tonnes per day in the short term – 200,000 tonnes per day in the long term	The system will be connected to the Taizhou Water Supply System (Phase III) and run through a few villages and towns in Wenling City to reach Yuhuan City	Water diversion tunnels, water pipelines, a new pumping station and a new water treatment plant	Taizhou South Bay Water Supply	November 2018	April 2022	1,365.1	244.3	– the estimated total investment to be funded by internal resources, government grants and third parties borrowings	20 years	7 years

Notes:

(1) Upon completion of the relevant water supply system, we plan to apply for the relevant permit to supply tap water directly to end-users by utilising the municipal water supply capacity.

(2) For illustration purpose only, "in the short term" normally refers to less than 10 years after completion of the project, and "in the long term" normally refers to more than 10 years after completion of the project.

For illustration, the map below shows our water supply systems and the Taizhou Bay Economy Zone:



Taizhou Water Supply System (Phase I)

The Taizhou Water Supply System (Phase I) was a landmarked water supply project by the local government in Taizhou as it is the first urban water supply system project launched in Taizhou. Its construction commenced in 1993 and trial operation took place in 1995. The Taizhou Water Supply System (Phase I) is 61.47 km long and runs from Changtan Reservoir, through Huangyan District, Jiaojiang District, Luqiao District to Zeguo Town of Wenling City. The Taizhou Water Supply System (Phase I) supplies raw water. It principally diverts raw water from Changtan Reservoir to the Huangyan Pumping Station where water pressure is increased and the raw water is transferred east to water treatment plants in Jiaojiang District, Huangyan District and Luqiao District, and south to the pumping station in Luqiao District and further to the Zeguo Water Treatment Plant. The designed water diversion capacity of the Taizhou Water Supply System (Phase I) from Changtan Reservoir is 280,000 tonnes per day and the designed process capacity of Huangyan Pumping Station is 250,000 tonnes per day of which 90,000 tonnes per day to Huangyan District, 90,000 tonnes per day to Jiaojiang District, 40,000 tonnes per day to Luqiao District, 20,000 tonnes per day to Zeguo Town of Wenling City and 10,000 tonnes per day along the areas the water supply system passes through.

The Taizhou Water Supply System (Phase I) was launched by the local government in Taizhou. The Leading Group of Huang-Jiao-Wen Joint Water Supply Project (黃椒溫聯合供水工程領導小組), which consisted of various local government authorities, in June 1992 resolved, among others, to establish a Supervision Division of Huang-Jiao-Wen Joint Water Supply Project (黃椒溫聯合供水工程總指揮部) with officers from relevant government authorities to primarily responsible for the construction and implementation of the project. Construction works were sub-contracted to qualified contractors. The actual total investment amount of the Taizhou Water Supply System (Phase I) was RMB249.8 million. The designed payback period for the whole investment is about 14.7 years. The local governments of Huangyan, Jiaojiang and Wenling were responsible to raise funds through various fund-raising methods to finance the construction costs.

In December 1996, the Supervision Division of Huang-Jiao-Wen Joint Water Supply Project transferred the assets of the Taizhou Water Supply System (Phase I) to our Predecessor Company at a consideration of RMB249.8 million, being the actual investment amount, and had been paid during the construction of the project.

We own the water supply network and related facilities of the Taizhou Water Supply System (Phase I), which are recognised as fixed assets.

Taizhou Water Supply System (Phase II)

In view of the fact that the water supply capacity of the Taizhou Water Supply System (Phase I) was approaching its maximum, and in order to resolve the increasing demand or water consumption of the South Area of Taizhou, the construction of the Taizhou Water Supply System (Phase II) commenced in 2004 and trial operation took place in 2008. This water supply system project was accredited as Zhejiang Province Key Construction Project (浙江省重點建設預備項目). The Taizhou Water Supply System (Phase II) has a designed water diversion network of 36.2 km and a designed water supply network of 64.12 km, and Taizhou Water Treatment Plant forms part of it. The designed municipal water supply capacity

of Taizhou Water Treatment Plant is 366,000 tonnes per day. The Taizhou Water Supply System (Phase II) supplies both raw water and municipal water. The designed raw water supply capacity is 490,000 tonnes per day, of which 110,000 tonnes per day is to be supplied to Huangyan District and 380,000 tonnes per day is diverted to Taizhou Water Treatment Plant. Raw water drawn from Changtan Reservoir is directly sold to Zhejiang Huangyan Water Supply or diverted to the Taizhou Water Treatment Plant. Municipal water treated from the Taizhou Water Treatment Plant is delivered to Jiaojiang District, Luqiao District, Wenling City and Yuhuan City.

The major facilities and infrastructure we constructed and completed in respect of the Taizhou Water Supply System (Phase II) include the water diversion pipeline network, the water supply pipeline networks, transmission tunnels and the Taizhou Water Treatment Plant.

Similar to the case as the Taizhou Water Supply (Phase I), a supervision division with officers from various government authorities including the chairman of our Predecessor Company was established to primarily responsible for the construction of the Taizhou Water Supply System (Phase II). The actual total investment amount of the Taizhou Water Supply System (Phase II) was RMB1,175.29 million and its designed payback period for the whole investment is about 11.1 years. When aggregating the Taizhou Water Supply System (Phase I), the actual payback period and the actual breakeven period of the two water supply systems are 11.42 years and 5.78 years, respectively. The Taizhou DRC has allocated the investment costs among the various project companies involved in the project, and Taizhou City Water was allocated to be responsible for the construction of certain water supply pipeline networks and tunnels and the Taizhou Water Treatment Plant, and responsible for the construction costs of RMB525.2 million.

In December 2008, the supervision division of the Taizhou Water Supply System (Phase II) transferred the raw water supply networks and Taizhou Water Treatment Plant, and the whole project in June 2011, at a total consideration of RMB1,175.29 million, being the actual total investment cost, which had been paid during the construction of the project.

We own the water supply network and related facilities of the Taizhou Water Supply System (Phase II), which are recognised as fixed assets.

Taizhou Water Supply System (Phase III)

Taizhou DRC accepted the project proposal on, and approved the Taizhou Water Supply System (Phase III) in May 2015 and September 2016, respectively. The Taizhou Water Supply System (Phase III) was accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目) in 2017 by Zhejiang DRC (浙江省發展和改革委員會) Group of Zhejiang Province Key Projects (浙江省重點專案領導小組).

The objectives of the project are to supply water to the Taizhou Bay Economic Zone and to resolve the increasing demand for water in areas we have already supplied water. The project consists of water drawing engineering, raw water supply engineering, construction of water treatment plant, municipal water distribution network and the contingency arrangements between Changtan Reservoir and the Niu Tou Shan Reservoir.

The raw water supply network of this project will be of 61.45 km long and runs from Changtan Reservoir and, upon completion of its construction, Zhuxi Reservoir to the newly-built water treatment plant in the Taizhou Bay Economic Zone. The project will also include the construction of a new water treatment plant and the expansion of the existing water supply capacity of Taizhou Water Treatment Plant to 650,000 tonnes per day in the long term. As a contingency arrangement, a raw water diversion network of 14.6 km will be built to connect water drawn from Niu Tou Shan Reservoir to the Taizhou Water Supply System (Phase I). Such raw water diversion network will be constructed as part of the Taizhou Water Supply System (Phase III), and as at the Latest Practicable Date, we had fulfilled all the requirements for tender invitations, and we would proceed to invite tenders for the construction works of the water diversion network.

The Taizhou Water Supply System (Phase III) supplies both raw water and municipal water. Raw water is to be drawn from Changtan Reservoir and, upon completion of its construction, Zhuxi Reservoir as well. The designed raw water supply capacity of the Taizhou Water Supply System (Phase III) can be 250,000 tonnes per day from Changtan Reservoir, and 330,000 tonnes per day upon completion of the construction of Zhuxi Reservoir, and 1,000,000 tonnes per day in the long term. In the short term, the designed municipal water supply capacity of the Taizhou Water Supply System (Phase III) is 284,000 tonnes per day, with 200,000 tonnes per day from the new water treatment plant and 84,000 tonnes per day from the expanded portion of the Taizhou Water Treatment Plant. In the long term, the designed municipal water supply capacity of the Taizhou Water Supply System (Phase III) is 884,000 tonnes per day, with 600,000 tonnes per day from the new water treatment plant and 284,000 tonnes per day from the expanded portion of the Taizhou Treatment Plant.

Upon completion of its construction, we plan to apply for the relevant permit to supply tap water directly to end-users in the areas the Taizhou Water Supply System (Phase III) passes through. Our Directors believe that there is no material impediment in obtaining such relevant permit.

Zhuxi Reservoir is a new reservoir approved by Zhejiang DRC (浙江省發展和改革委員會) and is currently under construction and is expected to complete the construction in 2022. Zhuxi Reservoir is situated in Xianju County (仙居縣) and Huangyan District, Taizhou. The construction of Zhuxi Reservoir is one of the major water conservancy projects under the Advice on the Overall Arrangements for the Construction of National Large-scale Reservoirs (2013-2015) (全國大型水庫建設總體安排意見(2013-2015年)). The principal function of Zhuxi Reservoir is water supply with the ancillary functions as flooding control, irrigation and hydropower. It will primarily supply water to (i) the South Area of Taizhou (including the urban area of Taizhou, Wenling City, Yuhuan City and the Taizhou Bay Economic Zone) and (ii) certain regions of Zhuxi County. A specific amount of water from the Zhuxi Reservoir will be diverted to Changtan Reservoir. The designed storage capacity of Zhuxi Reservoir is 125.73 million tonnes. Taizhou Zhuxi Reservoir Development Ltd. (台州市朱溪水庫開發有限公司) ("**Taizhou Zhuxi**") is the project company for the construction of the Zhuxi Reservoir and (i) we are interested in 15.625% interests, (ii) Wenling Water Supply, our connected person, is interested in 7.88% interests, (iii) Taizhou Luqiao Public Assets, one of our Shareholders, is interested in 6.3125% interests, (iv) Yuhuan City Water Resources Development Ltd. (玉環市水資源開發利用有限公司), a 60%-owned subsidiary of Yuhuan Water Group, which holds 40% of our subsidiary, Taizhou South Bay Water Supply, is interested in 5.5% interests and (v) Zhejiang Huangyan Financial Development, one of our Shareholders, is interested in 1.25% interests. The other shareholders of Taizhou Zhuxi are Independent Third Parties. As the project is under construction, as at the Latest Practicable Date, specific terms (such as exclusivity, purchase limit and pricing) of drawing water from Niu Tou Shan Reservoir and Zhuxi Reservoir had not been fixed by the parties.

Construction of the Taizhou Water Supply System (Phase III) commenced in February 2018 and is expected to complete in February 2022. Construction works including foundation formation works and laying of water tunnels and pipelines of the project are being carried out. All of the construction works are undertaken by contractors engaged through public tenders.

We perform our duties and are entitled to the benefit and interests in Taizhou Zhuxi as a shareholder. Despite that we only have 15.625% interest in Taizhou Zhuxi, Taizhou Zhuxi is accounted for as an associate of us as we have significant influence on Taizhou Zhuxi by way of having representatives on board of directors of Taizhou Zhuxi. Accordingly, we do not directly bear the construction costs of Zhuxi Reservoir.

Based on the estimated costs on construction, materials and components, land acquisitions, environmental protection, land conservation, and engineering and the tender results, etc. as at the current project stage, the estimated total investment cost of the Taizhou Water Supply System (Phase III) is approximately RMB2,994.8 million, of which RMB157.6 million (equivalent to HK$175.8 million) will be funded by the proceeds from the Global Offering and the remaining will be funded by internal resources and/or third party borrowings. For details, please refer to "Future plans and use of proceeds" of this prospectus. As of 30 June 2019, the total costs incurred in respect of the Taizhou Water Supply System (Phase III) amounted to RMB873.3 million. Based on the current progress of the project, it is expected that our Group would incur the remaining investment cost as follows:

	Amount expected to be incurred
	(RMB)
Six months ending 31 December 2019	454.6 million
Year ending 31 December 2020	998.0 million
Year ending 31 December 2021	619.9 million
Year ending 31 December 2022	49.0 million

Given that approximately 94.7% of the estimated total investment costs of the Taizhou Water Supply System (Phase III) are to be financed by internal resources and/or third party borrowings, we expect our gearing ratio will remain high and increase in view of additional potential borrowings.

During the construction period of the Taizhou Water Supply System (Phase III), the costs and expenses incurred are recognised as costs for construction-in-progress, while the leases for pipeline construction are recognised as rights-of-use assets and depreciated over the lease term. When the project is placed into service, the construction-in-progress would be recognised as fixed assets and depreciation commences.

Taizhou Water Supply System (Phase IV)

Taizhou DRC accepted the proposal on, and approved the Taizhou Water Supply System (Phase IV) in April 2018 and August 2018, respectively. The Taizhou Water Supply System (Phase IV) was accredited as as the Zhejiang Province Key Construction Project (浙江省重點建設項目) in 2018 by Zhejiang DRC (浙江省發展和改革委員會). The objectives of the project are to principally supply water to South Bay Zone.

The project involves the construction of water diversion and distribution tunnels and pipelines, a pumping station and a water treatment plant. The raw water supply network of this project will be of 40.56 km starting from the newly-built pumping station through the nearby villages and towns in Wenling City to reach Yuhuan City. Municipal water will be supplied through the newly-built water treatment plant to customers in Yuhuan City.

This water supply system will supply both raw water and municipal water. Raw water will be sourced from the Taizhou Water Supply System (Phase III) at the point of the new pumping station is situated. In the short term, the designed raw water supply capacity of this water supply system is 150,000 tonnes per day, of which 50,000 tonnes per day is to be supplied to Wenling City and 100,000 tonnes per day is to be supplied to Yuhuan City, and the designed long-term raw water supply capacity is 300,000 tonnes per day, of which 100,000 tonnes per day is to be supplied to Wenling City and 200,000 tonnes per day is to be supplied to Yuhuan City.

The current designed municipal water supply capacity of this water supply system is 100,000 tonnes per day in the short term, and 200,000 tonnes per day in the long term.

Upon completion of the construction of the Taizhou Water Supply System (Phase IV), we plan to apply for the relevant permit to supply tap water directly to the end-users in Yuhuan City. Our Directors believe that there is no material impediment in obtaining such relevant permit.

At present, works of the project such as foundation formation of the water treatment plant and part of tunnels have commenced and we have completed the tender processes for major construction works.

The construction of the project commenced in November 2018 and is expected to complete in April 2022. Based on the estimated costs on construction, materials and components, land acquisitions, environmental protection, land conservation, and engineering and the tender results, etc. as at the current project stage, the estimated total investment cost of the Taizhou Water Supply System (Phase IV) is RMB1,365.1 million, which is and will be funded by internal resources, government grant of RMB400.0 million from the People's Government of Yuhuan City and third party borrowings. For details of the government grant, please refer to "Financial information — Description of selected items of the consolidated statement of financial position — Deferred government grants" of this prospectus. As of 30 June 2019, the total costs incurred in respect of the Taizhou Water Supply System (Phase IV) amounted to RMB244.3 million. Based on the current progress of the project, it is expected that our Group would incur the investment cost as follows:

	Amount expected to be incurred[*(note)*]
	(RMB)
Six months ending 31 December 2019	109.4 million
Year ending 31 December 2020	397.6 million
Year ending 31 December 2021	538.1 million
Year ending 31 December 2022	75.7 million

Given that all of the estimated total investment costs of the Taizhou Water Supply System (Phase III) are to be financed by internal resources and/or third party borrowings, we expect our gearing ratio will remain high and increase in view of additional potential borrowings.

During the construction period of the Taizhou Water Supply System (Phase IV), the costs and expenses incurred are recognised as costs for construction-in-progress, while the leases for pipeline construction are recognised as rights-of-use assets and depreciated over the lease term. When the project is placed into service, the construction-in-progress would be recognised as fixed assets and depreciation commences.

As of 31 October 2019, we had RMB15,197.5 million of unutilised loan facilities, and our Directors believe that we are able to finance the remaining costs of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

Aggregate investment costs and return rate

The table below sets out the aggregate annual investment costs of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV):

	Aggregate investment costs
	(RMB)
Before 30 June 2019	1,117.6 million
Six months ending 31 December 2019	564.0 million
Year ending 31 December 2020	1,395.6 million
Year ending 31 December 2021	1,158.0 million
Year ending 31 December 2022	124.7 million

According to the feasibility study reports, the rate of return of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) is 4.83% and 5.63%, respectively.

Utilisation rates

The table below sets forth the designed water supply capacity and the actual water supply capacity of raw water and municipal water and utilisation rate for the years indicated:

	Year ended 31 December									Six months ended 30 June		
	2016			2017			2018			2019		
	Annualised designed water supply capacity [1]	Actual water supply capacity [2]	Utilisation rate [3]	Annualised designed water supply capacity [1]	Actual water supply capacity [2]	Utilisation rate [3]	Annualised designed water supply capacity [1]	Actual water supply capacity [2]	Utilisation rate [3]	Annualised designed water supply capacity [1]	Annualised actual water supply capacity [2]	Annualised utilisation rate [3]
	(tonnes '000)	*(tonnes '000)*	*(%)*	*(tonnes '000)*	*(tonnes '000)*	*(%)*	*(tonnes '000)*	*(tonnes '000)*	*(%)*	*(tonnes '000)*	*(tonnes '000)*	*(%)*
Raw water	131,400 [4]	111,352	84.7	131,400 [4]	115,836	88.2	131,400 [4]	116,692	88.8	131,400	114,390	87.1
Municipal water [5]	133,590 [6]	123,132	92.2	133,590 [6]	141,825	106.2 [7]	133,590 [6]	147,199	110.2 [7]	133,590	126,086	94.4

Notes:

1. Annualised designed water supply capacity is calculated by multiplying the water supply capacity per day as approved by the relevant local government in respect of the water supply system by 365 days.

2. Actual water supply capacity refers to the volume of water measured at the point where the water is released from our water supply network to our customers includes the sales of tap water to Wenling Zeguo Water Supply during the relevant periods. The water supply capacity for the six months ended 30 June 2019 is calculated on an annualised basis by multiplying the actual water supply capacity for that period by 2. The actual water supply capacity for raw water and municipal water for the six months ended 30 June 2019 is 57.2 million tonnes and 63.0 million tonnes, respectively.

3. Utilisation rate is calculated by dividing the actual water supply capacity by the annualised designed water supply capacity. The utilisation rate for the six months ended 30 June 2019 is calculated on an annualised basis by dividing the annualised water supply capacity by the annualised designed water supply capacity.

4. For purpose of calculating our utilisation rates, the designed raw water supply capacity takes into account (a) the designed raw water supply capacity of 250,000 tonnes per day for the Taizhou Water Supply System (Phase I); and (b) the additional raw water supply capacity of 110,000 tonnes per day to be diverted to Huangyan District under the Taizhou Water Supply System (Phase II), but excludes 380,000 tonnes per day to be diverted to Taizhou Water Treatment Plant.

5. Municipal water refers to the municipal water released from our Taizhou Water Treatment Plant, of which the tap water we sell forms part.

6. The designed municipal water supply capacity is based on the designed capacity of Taizhou Water Treatment Plant of 366,000 tonnes per day multiply by 365 days.

7. Designed water supply capacity is not the maximum water supply capacity, and to satisfy demand for water, the actual water supply capacity may exceed the designed water supply capacity through, among others, adjustments to the flow rate and water pressure, resulting in the utilisation rate to exceed 100%.

The raw water is supplied to Huangyan District, Jiaojiang District, Luqiao District, Zeguo Town and the nearby villages and towns the water supply systems pass through. The above utilisation rate of raw water supply is based on the designed raw water supply capacity of 250,000 tonnes for the Taizhou Water Supply System (Phase I) and the 110,000 tonnes per day raw water allocated to Huangyan District under the Taizhou Water Supply System (Phase II). The average utilisation rate of raw water supply to Huangyan District is 61.2%, 66.5%, 68.7% and 67.0% (annualised), respectively, for the three years ended 31 December 2018, and the six months ended 30 June 2019, and the average utilisation rate of raw water supply to areas excluding Huangyan District, namely Jiaojiang District, Luqiao District, Zeguo Town and the nearby villages and towns, is 133.8%, 122.1%, 108.0% and 104.1% (annualised), respectively, for the three years ended 31 December 2018, and the six months ended 30 June 2019.

Water supply sources

During the Track Record Period, we drew all water from Changtan Reservoir. All of our existing and new water supply systems will continue to draw water from Changtan Reservoir. However, to ensure that there will be sufficient water supply for our operations, we have secured additional sources of water supply. Water can be diverted from Niu Tou Shan Reservoir and we will also draw water from Zhuxi Reservoir. As at the Latest Practicable Date, the water diversion network from Niu Tou Shan Reservoir and Zhuxi Reservoir were under construction. The water to be diverted from Niu Tou Shan Reservoir will be used as a contingency arrangement in case of shortage of water supply from Changtan Reservoir. Before completion of the construction of Zhuxi Reservoir, our existing and the two new water supply systems will draw water from Changtan Reservoir. Upon completion of the construction of Zhuxi Reservoir, our new water supply systems can also draw water from

Zhuxi Reservoir and as a contingency arrangement, divert water from Niu Tou Shan Reservoir in addition to Changtan Reservoir, and therefore increase our water supply capacity in the long term. For details of the designed water supply capacity of our new water supply systems, please refer to the table headed "Water supply systems under construction" of this section.

We have been granted an exclusive right to draw water from Changtan Reservoir while our rights to draw water from Niu Tou Shan Reservoir and Zhuxi Reservoir are not exclusive. In light of the two new water supply systems, we will apply to and negotiate with the local government authority for a new Water Intake Permit with a revised water supply volume limit.

The volume of water stored in Changtan Reservoir is affected by the volume of rainfall in Taizhou. According to the Frost & Sullivan Report, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the average water storage volume of Changtan Reservoir was 398.5 million tonnes, 324.8 million tonnes, 321.8 million tonnes and 380.1 million tonnes, respectively, and the average rainfall of Taizhou was 1,765.7 mm, 1,376.1 mm, 1,649.6 mm and 923.2 mm, respectively. According to the Frost & Sullivan Report, the water storage volume of Changtan Reservoir as at the end of 2016, 2017 and 2018 was 385.2 million tonnes, 264.3 million tonnes and 379.3 million tonnes, and the actual volume of water collected by Changtan Reservoir was 614.1 million tonnes, 321.4 million tonnes and 514.4 million tonnes, respectively, in 2016, 2017 and 2018. With reference to the water storage and collection volumes of Changtan Reservoir and the additional water supply sources from Niu Tou Shan Reservoir and Zhuxi Reservoir, our Directors are of the view that there is sufficient water supply for our operation in years with normal rainfall volume.

The table below sets out information of our water supply sources and designed water supply capacity of our water supply systems:

Water supply system	Water supply sources		Limit stated in Water Intake Permit	Designed total raw water supply capacity		Designed total municipal water supply capacity		Designed total tap water supply capacity	
	Reservoir	Designed water storage capacity		Existing water supply systems	Existing and new water supply systems	Existing water supply systems	Existing and new water supply systems	Existing water supply systems	Existing and new water supply systems
Before completion of the water diversion network from Niu Tou Shan Reservoir and the Zhuxi Reservoir and in the short term	Changtan Reservoir	732.4 million tonnes	*Current:* 280 million tonnes per year *Upon operations of the new water supply systems:* New limit to be revised and approved by local government	740,000 tonnes per day[(1)]	1,140,000 tonnes per day[(1)]	366,000 tonnes per day[(2)]	750,000 tonnes per day[(2)]	20,000 tonnes per day	Subject to negotiation with and approval of government

Water supply system	Water supply sources		Limit stated in Water Intake Permit	Designed total raw water supply capacity		Designed total municipal water supply capacity		Designed total tap water supply capacity	
After completion of the water diversion network from Niu Tou Shan Reservoir and the Zhuxi Reservoir and in the long term	– Changtan Reservoir	– 732.4 million tonnes	*Current:* 280 million tonnes per year	740,000 tonnes per day[1]	2,040,000 tonnes per day[1]	366,000 tonnes per day[2]	1,450,000 tonnes per day[2]	20,000 tonnes per day	Subject to negotiation with and approval of government
	– Zhuxi Reservoir	– 125.73 million tonnes	*Upon operations of the new water supply systems:* New limit to be revised and approved by local government						
	– Niu Tou Shan Reservoir (as a contingency arrangement)	– 302.5 million tonnes							

Notes:

1. The raw water supply capacity of our existing water supply system is limited by the process capacity of the Huangyan Pumping Station of 250,000 tonnes per day. Accordingly, despite that the designed raw supply capacity of Taizhou Water Supply System (Phase I) is 280,000 tonnes per day, the calculation of the raw water supply capacity of our existing water supply systems is based on 250,000 tonnes per day for Taizhou Water Supply System (Phase I).

2. The municipal water supply capacity refers to the process capacity of Taizhou Water Treatment Plant.

Based on the above and on the following grounds, our Directors believe that there will be sufficient supply of water for our existing and new water supply systems:

– we have been granted the exclusive right to draw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity. According to the Frost & Sullivan Report, the total water storage volume of Changtan Reservoir as at the end of 2018 was 379.3 million tonnes, ranking first among all the large and medium size reservoirs with water supply function in Taizhou;

– the exclusive right to draw water from Changtan Reservoir was granted by the People's Government of Taizhou with no specific expiry date and maximum water limit or conditions. The relevant Water Intake Permit (取水許可證) is granted for a specific period and we from time to time have renewed such permit upon its expiry, and we have not experienced any difficulty in renewing the Water Intake Permit. We first obtained our Water Intake Permit in April 2016, and our current Water Intake Permit is to expire on 25 April 2021. Please also refer to "Business — Our competitive strengths — We have been granted the exclusive right to draw raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity" and "Business — Licences and permits" of this prospectus;

– we monitor closely the demand for water and will negotiate with the local government to revise the water supply volume as stated in the Water Intake Permit if the stipulated water supply volume is unable or likely to be unable to meet the water demand. Our water supply volume under the previous Water Intake Permit was 234 million tonnes per year, and as a result of the increasing demand for water, in May 2019 such water supply volume was increased to current amount of 280 million

tonnes per year under the current Water Intake Permit and such limit is fixed with reference to factors including our current water supply capacity and the water demand in the South Area of Taizhou. In light of the expected commencement of operations of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we will apply for a new Water Intake Permit with a revised water supply volume, and it is anticipated that there will be no material impediment in obtaining such a new Water Intake Permit;

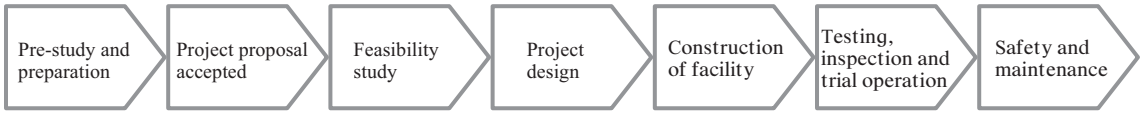
– apart from Changtan Reservoir, as part of the Taizhou Water Supply System (Phase III), there are contingency arrangements between Changtan Reservoir and the Niu Tou Shan Reservoir, and Zhuxi Reservoir will also supply water to this new water supply system. The designed water storage capacity of Changtan Reservoir, Niu Tou Shan Reservoir and Zhuxi Reservoir is 732.4 million tonnes, 302.5 million tonnes and 125.73 million tonnes, respectively. For the three years ended 31 December 2018, we drew a volume of 233.4 million tonnes, 259.5 million tonnes and 264.2 million tonnes, respectively, of raw water from Changtan Reservoir; and

– the infrastructures and facilities of the water supply systems are expanded and newly-built to cater for the anticipated increase in demand. The existing water treatment plant, Taizhou Water Treatment Plant, will expand its municipal water supply capacity from 366,000 tonnes per day to 650,000 tonnes per day. In relation to the Taizhou Water Supply System (Phase III), a new water treatment plant will be built in the eastern part of Taizhou and this new water treatment plant will have a designed municipal water supply capacity of 600,000 tonnes per day. In relation to the Taizhou Water Supply System (Phase IV), a new water treatment plant will be built in Yuhuan City which will have a designed municipal water supply capacity of 200,000 tonnes per day in the long term. For details of our water supply facilities, please also see the map under "Business — Our water supply systems" of this prospectus. Please also refer to "Risk factors — The actual supply volume of raw water and municipal water is subject to factors beyond our control, and the sales volume of our water is subject to water storage in reservoirs, restrictions of the downstream water supply capacity and climate factors" of this prospectus.

PROJECT CONSTRUCTION AND OPERATION

Water is an essential natural resource for human existence. The mission of a water supply system is to achieve and ensure a safe and reliable supply of potable water to the general population. The construction of a water supply system therefore does not only consider the economic benefit, more important, a water supply system is a public and social responsibility to supply water to people. As such, a water supply system and network usually is part of the master planning of a local government. The design and planning of a water supply system involve and require expertise from various segments: city planners, economic advisers, civil engineers and geologists, etc. They must consider many factors such as water source, locations and layout of the water supply networks and facilities, current demand, future growth and potential impact on the environment.

We are currently undertaking the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) projects. For details of our projects, please refer to "Business — Our water supply systems" of this section. Our works include the design and construction of water treatment plants and pumping station facility and other ancillary facilities. We have implemented detailed project management policies to govern the key aspects of our raw water and municipal water supply projects, including the following major steps:



Pre-study and preparation

Study and analyse the relevant information on the potential demand for raw water and municipal water, and based on these studies and analysis, propose to the relevant government authority a project on water supply system to serve the potential demand.

Project proposal accepted

The relevant government authority accepts the proposal on the project.

Feasibility study

A feasibility study is to be conducted on the project covering various aspects in details in the proposal, including water source study, environmental protection, water and land conservation, site selection and planning, and the possible impacts of the proposed project. The feasibility study reports also suggest alternatives, for example, on site selection and layout of water supply networks.

Again, we engage third parties to perform the feasibility studies. After the feasibility study report is internally approved by us, we submit to and seek approval from various government authorities including the Taizhou DRC and the Taizhou Water Bureau (台州水利局).

Project design

A comprehensive design on the whole project is prepared by third party professional design company engaged by us. The proposal covers all aspects of the project, including:

(i) geographical and demographic overview of the area

(ii) objective and mission of the project

(iii) operational parameter of the project

(iv) site selection, planning and location and layout of project facility, buildings and ancillary facility

(v) engineering and electricity

(vi) fire prevention design

(vii) construction works design, including the materials used for water supply pipelines

(viii) land acquisition and migration of existing inhabitants

(ix) environmental protection and impact

(x) water and land conservation

(xi) safety and health

(xii) energy conservation

(xiii) project management

(xiv) economic benefit, funding plan and source of funding

Construction of facility

After the design of the project is approved, we will commence the construction works of the project.

Application for necessary licences, permits and approvals

Before we commence the construction of the infrastructure and facility for our project, we have to obtain the necessary licences, permits and approvals from various competent government authorities. These licences, permits and approvals include (i) land use rights certificates (土地使用權證); (ii) Construction Land Use Permit (建設用地批准書); (iii) Construction Work Planning Permit (建設工程規劃許可證); and (iv) Commencement of Construction Work Permit (建築工程施工許可證). On some occasions, approvals such as Forest Logging Permit (林木採伐許可證), Mining Exploration/Extraction Rights Permit (採礦許可證), Commencement of Pipeline Construction Work Permit (管道施工許可證) and Permit to Use Sea Area (海域使用權證) are required.

The Taizhou Water Supply System (Phase III) involves a land acquisition of 497.2 mu, and temporary occupancy of land for construction of 2,070 mu, while the Taizhou Water Supply System (Phase IV) involves a land acquisition of 362.9 mu, and temporary occupancy of land for construction of 1,612.7 mu, and migration of approximately 380 people.

Based on the opinion of our PRC Legal Adviser, the Directors confirmed that we have obtained the relevant land use rights certificates and permits necessary for the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) at current stage.

Funding and financing

During the Track Record Period, we primarily funded our projects through a combination of internal resources and bank borrowings.

Construction works

We set up project companies to manage the construction works. We sub-contract the design, supervision and construction works of our projects to qualified and licensed contractors. We generally engage third party contractors through a public bidding process. The contractors are responsible to implement the construction works pursuant to our requirements and the relevant standards set by the government.

We enter into construction agreements with the successful bidders. We generally pay a deposit to the contractors upon signing of the agreements. The remaining of the fees are paid subject to the progress of the project with the balance to be paid after the construction works are completed, passed the inspection and in operation. During the construction process, we supervise the contractors' works.

Construction quality supervision and control

We place significant emphasis on quality control with regard to the construction and management of our projects. To ensure the quality standard of projects under construction meet the quality target as set out in the construction contracts and to ensure compliance with the relevant national laws and regulations, we have established a system of quality control policies and procedures:

- before the commencement of the construction works, we have clearly set out the quality standard requirement and required our construction contractors to submit to us the plans and drawings of the construction works

- the engineering supervisor (監理人) appointed by us is responsible to closely oversee and monitor the quality of the construction works, and conduct checking and inspections to ensure the works meet the quality standard

- to ensure the materials used in the construction works meet the required quality standard, qualified companies are engaged to conduct testing on all batches of key materials on a prescribed sample portion, and all sub-standard materials are returned

- discuss and analyse the issues on quality in the regular monthly meeting, provide advice on improvements and review the implementation of the rectification measures

- the construction sub-contractors shall together with external quality inspection entities and relevant government authority conduct quality control inspection on the works from time to time throughout the construction process, and promptly rectify any issues found

Construction progress monitor and supervision

Since our projects involve substantial investment costs and any delay in the construction works will lead to adverse negative financial impacts on our Group, we have implemented the following measures to monitor the construction progress of our projects:

- the construction progress is expressly stated in the contracts entered into with our sub-contractor, and the sub-contractor will be liable for any breach of such provision in the contract

- a work plan is compiled based on the agreed construction progress

- verify the progress of the construction works against the work plan on a monthly basis, and understand the manpower, equipment and machinery utilise on-site in the construction works to assess the possibility of delay due to shortage of manpower and construction equipment

- convene meeting with our sub-contractors on a monthly basis to understand the progress of the construction works against the work plan

- promptly notify us of any delay in construction progress to the on-site engineer and the sub-contractor and request the sub-contractor to take the necessary measures to speed up the construction works

Testing, inspection and trial operation

During the construction and upon completion of construction work, we perform tests and inspect the construction work to ensure it is constructed in accordance with the design plans, relevant standards and regulatory requirements. The competent government authorities also inspect the construction works. Trial operations may be undergone for some facility. After passing the inspection and the trial operation, the facility officially commences operation.

Safety and maintenance

To achieve a sustainable water supply network, it is important that the water supply facilities are undergone systematic and regular maintenance to repair and fix the defects of our water supply facilities and to ensure the water supply system operates safely.

Our technology and engineering department is in charge of repair and maintenance of our water supply facilities, including the water distribution networks, aqueducts, channels and pipelines, pumping facility, water treatment plants, water volume measurement meters.

We have implemented a policy and procedures of repair and maintenance of our water supply facilities. Staff from our technology and engineering department have to conduct a daily on-site patron and inspection on our water supply facilities according to the route and inspection items set out in the Facilities Inspection Record Form (設備巡視記錄表). Our patron staff by physical presence observation and assistance by tools and equipment inspect the facilities for any damage, inherent defects, abnormal conditions, land run-off and environment destruction. The patron staff will take rectification actions to promptly fix certain minor defects on-site and report the case to the supervisor (主管人員). For defects which cannot be fixed on-site, the patron staff have to fill in an abnormal conditions list (設備異常情況報告單). The patron staff have to complete the facilities inspection Record form, including record down all defects found and fixed on-site.

Upon receipt of the abnormal condition list, our technical staff will report the case to team head, who will derive a specific repair plan based on our internal repair and maintenance policy.

We have implemented a routine inspection and maintenance procedures, and our technical department derives an annual repair and maintenance schedule of our facilities and equipment, and such plan is submitted for approval by the vice-general manager of our production department at the beginning of each year. We categorise our regular repair and maintenance works into two types: type I and type II. The type I maintenance works generally refer to works which require less technical skills and knowledge, such as cleaning, relocation of equipment, and are conducted by our technical staff with the assistance of the equipment operators. The type II maintenance works generally refer to replacement of wear and tear parts and components and inspection works for electricity and gas supply utilities, which required higher level of technical skills and knowledge, and are carried out by our technical staff and, where required, third party competent personnel.

On a general basis, we also deploy our production staff to monitor the operation of our facilities and equipment through checking the parameter data on pressure, flow volume and leakage, etc., and to report any problem to their supervisors.

KEY TERMS OF OUR MAJOR CONSTRUCTION AGREEMENTS

As of the Latest Practicable Date, we entered into construction agreements with the contractors who have successfully won the tenders in relation to the construction of tunnels, water pipelines and land formation of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). A construction agreement normally consists of the result of the tender invitation, general agreement, standard and specific terms and conditions, project specifications, technical and quality standard. Major terms of these agreements are summarised as follows:

Work specifications:	The agreements contain the project details, work scope, layout, project team composition, technical and quality specifications, materials required and expected date of delivery of the work.
Contract price:	The contract price stated in the agreements normally is the price as stated in the tender documents. The agreements contain cost-fluctuation clauses which provide for adjustments in labour and direct material costs prices with reference to selected pricing standard and set out the adjustment mechanism and calculations.

Payment terms:	A certain percentage of the contract price, usually no more than 15%, is paid as prepayment within 7 days after the commencement of the project, and such prepayment will be used to settle the contract price. The contractor shall provide to us a monthly progress report of the work it has performed during the month, which shall be certified by the construction engineer (工程師). Payment on the milestone of works completed will be paid upon our confirmation of the progress. There is an agreement where the contract price is paid at a certain percentage based on the progress of the construction works. The contractor shall submit to us a completion settlement calculations within 90 days after inspection of the construction works and obtaining the report on quality inspection (工程質量報告). We will conduct an audit on the completion settlement calculation. We will pay the outstanding payments (other than the retention money) and issue the certificate of completion to the contractor within 6 months after completion of the settlement audit. The agreement provides the aggregate fees paid to the contractors during the construction period will generally not be more than 85% of the contract price.
Retention money:	Some agreements provide that we are entitled to retain a pre-fixed percentage (normally 2.5%) of the contract price as retention money, partial of which will be released to contractor upon expiry of the warranty period.
Quality assurance:	The contractors are required to provide establish a quality assurance system and provide the relevant documents to our engineering supervisor, including to provide training on quality requirement to its staff. The engineering supervisor is responsible to conduct regular quality checking and inspection. The contractor has to rectify all defects on quality at its own costs. If delay is caused by defective works of the contractor, the contractor shall bear the additional costs and compensate our Group.

	The agreement expressly provides for the quality standard of the materials to be used. The contractor shall use the materials, equipment and adhere to the quality and technical standards as stipulated in the tender documents, the contract and the relevant laws and regulations on quality. For key materials and equipment, the contractor has to purchase from the list of materials and brands as set out in the agreement. Our engineering supervisor will conduct inspections on the quality of the materials and equipment. The contractor has to rectify or re-construct all sub-standard works.
Completion inspection:	When the construction works are completed, the contractor shall submit a completion application to our engineering supervisor (監理人). Upon the engineering works have complied with and met the prescribed requirements and standards, the engineering supervisor will submit a completion inspection application to us, and we together with the engineering supervisor and the project design company will conduct a completion inspection. Upon passing such inspection, we will issue a completion certificate.
Warranty period:	The contractor provides us a warranty period of 12-24 months from the date the completion certificate. During the warranty period, the contractor shall provide the repair services as set out in the contract. During the warranty period, if the defect is caused by the default of the contractor, the contractor will bear the costs for the repair works. On the contrary, if the defect is caused by the default of our Group, we will bear the costs for the repair works.
Variations:	The contractor cannot cease the construction works by reasons of any subsequent changes in the work scope. If a variation of work falls within an item of original tender, the price for the variation work shall be fixed on the basis as the tender. If a variation of work does not include in the original tender, the parties have to separately agree on the price based on factors such as the increased costs to be incurred by the contractor.
Sub-contracting:	The contractor is not allowed to sub-contract the works (including main structural works, key parts and other works specifically prohibited to sub-contracting) granted to it.

Termination:	The agreements provide for the termination of the parties' obligations upon occurrence of certain events such as force majeure, and contains clause imposing liability on the defaulting party in case of project delay and sub-standard work quality.

QUALITY CONTROL

We emphasise on quality at different stage of our operations. At the project planning stage, we utilise our experience and leverage on the advice and studies of third party professionals and expertise, we derive a proposal on the water supply project which is viable and sustainable. During construction stage, we apply our extensive project management skills to closely monitor the progress and quality of the construction and also engage a professional construction supervision firm to provide professional construction management service. After the project commences its operation, we continue to place effort on repairing and maintenance works to ensure safe operation and reliable water supply.

As a water supply service provider, we have implemented stringent quality control measures on water quality inspection covering the full spectrum from raw water to delivery of municipal water and tap water. We have implemented a digitalised system in our water treatment process and such system monitors the key bench indicators on a real-time basis and would automatically make adjustments throughout our water treatment process to effectively control the water volume and water quality. We regularly repair and maintain our equipment and facilities to ensure they function properly and we also provide relevant trainings to our staff on quality control and hold regular meetings with key employees on potential problems.

The water we draw from Changtan Reservoir is required to meet the Surface Water Environment Standards (GB3838-2002) (地表水環境品質標準) of the PRC. Our municipal water and tap water are required to comply with the national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC.

We conduct water quality inspection throughout our water treatment process and strictly follow the national Drinking Water Standard Inspection Procedures (GBT5750) (生活飲用水標準檢驗方法) of the PRC in our water quality inspection. The table below summaries the water testing we conducted during our water treatment process:

Water sample	Examples of inspection subject	Water quality standard
Raw water	Temperature, pH value, nitrogen, barium nitrate, iron, manganese, total coliform, chroma, turbidity, visible solids and impurities, smell and alkalinity	— Surface Water Environment Standards (GB3838-2002) (地表水環境品質標準) of the PRC
	Items required under the Surface Water Environment Standards (GB3838-2002) (地表水環境品質標準) of the PRC	— Surface Water Environment Standards (GB3838-2002) (地表水環境品質標準) of the PRC

Water sample	Examples of inspection subject	Water quality standard
Water sample from pumping station	pH value, manganese	— Our internal quality standard
Water sample from sedimentation tank	Chroma, turbidity and manganese	— Our internal quality standard
Water after the sedimentation process	Chroma, turbidity, pH value, visible solids and impurities, smell, ammonia nitrogen and manganese	— Our internal quality control standard
Water in municipal water tank	Turbidity, chroma, smell, visible solids and impurities, pH value, nitrogen, ammonia nitrogen, total bacteria, total coliform, thermal-resistant bacteria, ammonia and alkalinity	— national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC
	Items required under the national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC	— national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC
Tap water	Turbidity, chroma, smell, visible solids and impurities, COD, pH value, nitrogen, ammonia nitrogen, iron, manganese, total bacteria, total coliform, heat-resistant bacteria, ammonia	— national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC

The Water Quality Inspection Centre of Taizhou City Water obtained the Laboratory Accreditation Certificate issued by China National Accreditation Service for Conformity Assessment (CNAS). Our municipal water and tap water production process have accredited with ISO9001:2015. Apart from the inspection conducted by our in-house water quality inspection centre, the relevant authority of the local government also conduct regular inspection on the water quality in our water treatment plant to ensure that the municipal water we distribute to our customers meets the stipulated water quality standard.

We have implemented the following three-tier quality control and inspection system in relation to our water quality:

– our operation staff monitor the water quality closely by inspecting the relevant indicators and meters on an hourly basis on data on turbidity, pH value and level of chlorine residues;

– our quality control staff conduct regular testing on the sample water at least twice a day to ensure the water quality meets the relevant quality standards; and

– our in-house water quality inspection centre carries out a daily analysis on water quality from our water treatment plant daily and weekly analysis on water samples collected from the water supply systems.

In addition to our above three-tier quality control system, we also send water samples to external inspection centres on a monthly basis for inspection to ensure our water meets the national Drinking Water Standard (GB5749-2006) (生活飲用水衛生標準) of the PRC.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality problems.

CUSTOMERS

Overview

Our customers are mainly local municipal water service providers who, to the best of our knowledge, provide water to other municipal water service providers and end-users. These customers purchased raw water and/or municipal water from us, and we directly sell and deliver raw water and/or municipal water to our major customers through the water supply networks. We enter into water supply contracts with our major customers. For the salient terms of these contracts, please refer to "Business — Our water supply services — Salient terms of agreements" of this prospectus.

Major customers

For the three years ended 31 December 2018 and the six months ended 30 June 2019, we generated RMB363.8 million, RMB414.1 million, RMB454.0 million and RMB202.3 million revenue from our top five largest customers, representing 88.8%, 89.5%, 90.0% and 89.6%, respectively, of our total revenue of our Continued Operations during the same period, and we generated RMB123.3 million, RMB129.4 million, RMB136.8 million and RMB63.8 million revenue from our largest customer, representing 30.1%, 28.0%, 27.1% and 28.3%, respectively, of our total revenue of our Continued Operations.

The following table sets forth information on our five largest customers for each of the three years ended 31 December 2018, and the six months ended 30 June 2019:

Year ended 31 December 2016

Rank	Customer	Background	Location	Year in which business relationship with our Group commenced *(note 2)*	Principal products sold	Total sales amount *(RMB'000)*	Percentage of our total revenue of our Continued Operations
1.	Taizhou Water Co., Ltd.* (台州自來水有限公司)	A state-owned local municipal water service provider	Taizhou	1995	Raw water and municipal water	123,253	30.1%
2.	Wenling Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	92,969	22.7%
3.	Taizhou Luqiao Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1996	Raw water and municipal water	79,593	19.4%
4.	Yuhuan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	36,161	8.8%
5.	Zhejiang Huangyan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1995	Raw water	31,814	7.8%

Year ended 31 December 2017

Rank	Customer	Background	Location	Year in which business relationship with our Group commenced *(note 2)*	Principal products sold	Total sales amount *(RMB'000)*	Percentage of our total revenue of our Continued Operations
1.	Taizhou Water Co., Ltd.* (台州自來水有限公司)	A state-owned local municipal water service provider	Taizhou	1995	Raw water and municipal water	129,383	28.0%
2.	Wenling Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	111,088	24.0%
3.	Taizhou Luqiao Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1996	Raw water and municipal water	87,995	19.0%
4.	Yuhuan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	51,082	11.0%
5.	Zhejiang Huangyan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1995	Raw water	34,562	7.5%

Year ended 31 December 2018

Rank	Customer	Background	Location	Year in which business relationship with our Group commenced *(note 2)*	Principal products sold	Total sales amount *(RMB'000)*	Percentage of our total revenue of our Continued Operations
1.	Taizhou Water Co., Ltd.* (台州自來水有限公司)	A state-owned local municipal water service provider	Taizhou	1995	Raw water and municipal water	136,825	27.1%
2.	Wenling Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	123,417	24.5%
3.	Taizhou Luqiao Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1996	Raw water and municipal water	97,118	19.3%
4.	Yuhuan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	56,125	11.1%
5.	Zhejiang Huangyan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1995	Raw water	40,480	8.0%

Six months ended 30 June 2019

Rank	Customer	Background	Location	Year in which business relationship with our Group commenced *(note 2)*	Principal products sold	Total sales amount *(RMB'000)*	Percentage of our total revenue of our Continued Operations
1.	Taizhou Water Co., Ltd.* (台州自來水有限公司)	A state-owned local municipal water service provider	Taizhou	1995	Raw water and municipal water	63,822	28.3%
2.	Wenling Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	54,419	24.1%
3.	Taizhou Luqiao Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1996	Raw water and municipal water	45,197	20.0%
4.	Zhejiang Huangyan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	1995	Raw water	19,893	8.8%
5.	Yuhuan Water Supply *(note 1)*	A state-owned local municipal water service provider	Taizhou	2008	Municipal water	18,934	8.4%

Notes:

1. Wenling Water Supply, Taizhou Luqiao Water Supply, Yuhuan Water Supply and Zhejiang Huangyan Water Supply are our connected persons under Chapter 14A of the Listing Rules upon the Listing, and our transactions with these companies will continue after the Listing. For details, please refer to "Business — Sales to connected persons" and "Connected transactions" of this prospectus.

2. The year of business relationship also takes into account the business relationship established with our Predecessor Company.

Save as disclosed above, none of our Directors, their respective close associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of shareholding interest in our Company as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

SALES TO CONNECTED PERSONS

During the Track Record Period, we supplied raw water and municipal water to our connected persons, Wenling Water Supply, Yuhuan Water Supply, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, and such transactions with our connected persons will continue after the Listing. Please refer to "Connected transactions" for details.

For the three years ended 31 December 2018 and the six months ended 30 June 2019, revenue generated from sales to these connected persons amounted to RMB240.6 million, RMB284.8 million, RMB317.1 million and RMB138.4 million, respectively, representing 58.7%, 61.5%, 62.9% and 61.3% of our total revenue of our Continued Operations.

These companies principally supply water to the public. They purchase raw water and/or municipal water from us for onward distribution to their customers including other municipal water service providers and end-users. We (including our Predecessor Company) have been in transaction with these companies for 12 years to 25 years. The terms of the transactions between our Group and each of these connected persons are negotiated on an arm's length basis between the parties. The price of the raw water and/or municipal water at which we sell to these companies is according to the price fixed by the local pricing authorities.

Despite that these companies are our connected persons under Chapter 14A of the Listing Rules, each of them operates and manage independently among themselves and from us.

As set out in "Connection transactions" of this prospectus, the proposed annual caps for the transactions with certain connected persons show a decrease of sales volume of raw/municipal water for the year ended 31 December 2018. In light of the general average low rainfall volume recorded in Taizhou which might have driven an increase in our sales amount for the year ended 31 December 2017, and the anticipated increased rainfall volume in 2019, we have taken into accounts these factors in estimating the annual caps with our connected persons. The volume of rainfall generally affects our sales amount and our Directors believe that it is fair and reasonable to consider such factor when calculating the proposed annual caps. As the increase in our sales volume for the year ended 31 December 2017 might have been driven by the general low rainfall volume recorded in Taizhou in that year and such sales volume may not be representative to our operation, our Directors confirm that the estimated decrease in the sales amount as stipulated from the estimated annual caps compared with the sales volume in 2018 will not have a negative impact on our profitability as a whole.

PROCUREMENT AND SUPPLIERS

During the Track Record Period, our principal raw materials and parts and components used for our Continued Operations were as follows:

Business activity	Principal raw materials and components
Maintenance of water supply system	Spare parts and components used for daily repair and maintenance
Operation of water supply system	Raw water, electricity, chemicals such as sodium hypochlorite and hydrated lime

For the three years ended 31 December 2018 and the six months ended 30 June 2019, the cost of materials (i.e. raw water procurement fee, water resources fee and raw material cost) accounted for 41.7%, 44.2%, 50.1% and 51.4%, respectively of our total cost of sales. For details, please refer to "Financial information — Principal components of profit or loss and other comprehensive income for the Continued Operations — Cost of sales" of this prospectus.

Procurement plan

In relation to construction of water supply system, we procure our raw materials and equipment in accordance with the construction progress. In relation to raw materials, parts and components and equipment which are required for the on-going operation of our water supply system, our procurement staff work closely with our production department to formulate our procurement plan according to our operation and maintenance needs.

For sub-contractors engaged for the construction works of our projects, they are responsible for the procurement of materials, such as steel and pipelines, used in the construction process. Such material costs are usually included in the pre-agreed contract prices with these construction/engineering companies.

Our suppliers

All of our suppliers are located in the PRC. Our suppliers (excluding suppliers of the Discontinued Operations) can be generally classified as construction-related suppliers and non-construction related suppliers.

Construction-related suppliers: These suppliers primarily are contractors, design and engineering companies we engage for the construction of the water supply infrastructure such as water treatment plants, water distribution networks, channels and pipelines, and other ancillary facilities. Some of them are equipment and facility suppliers. We select these suppliers through public tenders. We enter into construction agreements and equipment supply agreements with the successful tenders. We generally make payments to our construction-related suppliers based on the progress of the project and according to schedule stated in the agreement. For details of the terms of the agreements with our construction-related suppliers, please refer to "Business — Key terms of our major construction agreements" of this prospectus. For the years ended 31 December 2016 and 2017, our construction-related suppliers were mainly contractors engaged for our repair and maintenance works. For the year ended 31 December 2018 and the six months ended 30 June 2019, in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we also engaged contractors for the related construction works of the projects. These contractors are engaged by us through public tenders and on a project-to-project basis.

Non-construction related suppliers: During the Track Record Period, all our water was drawn from Changtan Reservoir and we have to pay to Changtan Reservoir Affairs Centre a raw water procurement fee and a water resources fee fixed by the local pricing authorities, and pursuant to Notice 261, since 1 January 2018, the water resources fee has been paid to Taizhou Water Bureau (台州水利局). Accordingly, Changtan Reservoir Affairs Centre is one of our major non-construction related suppliers. Other suppliers also include electricity companies which provide the electricity necessary for our operation and chemical companies, parts and components and equipment manufacturers from whom we source certain chemicals for our water treatment process, and parts and components for repair and maintenance use in our equipment and facilities. We have maintained a list of qualified non-construction related suppliers. In selecting qualified suppliers, we evaluate a number of relevant factors, including the candidate suppliers' operational status, production capacity, price, supply capacity, technology capacity, management and after-sales services. We generally settle payments with our non-construction related suppliers by way of interbank remittance, and they grant us a credit period with a range of 0–90 days. Subject to the quantity of materials to be purchased, we may source our non-construction related materials through public tenders.

We did not enter into any long-term agreements with our suppliers. However, we have established a business relationship with our five largest suppliers (excluding the suppliers of the Discontinued Operations and contractors) during the Track Record Period for a period of 6 years to 26 years. During the Track Record Period, we did not encounter any material disruption in our operation resulting from shortage or delay in the supply of electricity, chemicals, raw materials, parts and components and equipment. We also did not experience any material delay in our construction works due to material default of our construction-related suppliers.

During the Track Record Period, we had not experienced any substantial fluctuations in the prices of our supplies.

We did not enter into any hedging activity or enter into any futures contracts to manage price fluctuation of our supplies during the Track Record Period, and we do not plan to enter into any hedging activity in the foreseeable future.

For the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, our purchases from our five largest suppliers (excluding the suppliers of the Discontinued Operations and contractors) accounted for 96.5%, 96.5%, 98.3% and 99.0% of our total purchases of our Continued Operations, respectively, and purchases from our largest supplier (excluding the suppliers of the Discontinued Operations and contractors) accounted for 73.8%, 73.7%, 78.9% and 81.4% of our total purchases of our Continued Operations, respectively.

None of our Directors, respective close associates of our Directors or any shareholders who, to the knowledge of our Directors, owned more than 5% of shareholding interest in our Company as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period.

Set out below are the brief particulars of our top five suppliers (excluding suppliers of the Discontinued Operations and contractors) during the Track Record Period:

Year ended 31 December 2016

Rank	Supplier	Background	Location	Year in which business relationship with our Group commenced	Materials sourced/ service provided	Total purchase amount	Percentage of our total purchase (excluding purchase for the Discontinued Operations and from contractors)
						(RMB'000)	
1.	Changtan Reservoir Affairs Centre	A public institution under the People's Government of Huangyan District responsible for the administration of Changtan Reservoir	Taizhou	1995	Raw water	95,960	73.8%
2.	Supplier B	A state-owned company principally engaged in the supply of electricity	Taizhou	1995	Electricity	16,247	12.5%
3.	Supplier C	A state-owned company principally engaged in the supply of electricity	Taizhou	1994	Electricity	8,827	6.8%
4.	Supplier D	A company principally engaged in wholesaling and retailing of water supply equipment raw materials	Taizhou	2011	Pipeline materials	2,737	2.1%
5.	Supplier E	A company principally engaged in development, production, sales and of installation of waste treatment equipment	Hangzhou	2014	Potassium permanganate, sodium hypochlorite	1,683	1.3%

Year ended 31 December 2017

Rank	Supplier	Background	Location	Year in which business relationship with our Group commenced	Materials sourced/ service provided	Total purchase amount	Percentage of our total purchase (excluding purchase for the Discontinued Operations and from contractors)
						(RMB'000)	
1.	Changtan Reservoir Affairs Centre	A public institution under the People's Government of Huangyan District responsible for the administration of Changtan Reservoir	Taizhou	1995	Raw water	102,862	73.7%
2.	Supplier B	A state-owned company principally engaged in the supply of electricity	Taizhou	1995	Electricity	18,100	13.0%
3.	Supplier C	A state-owned company principally engaged in the supply of electricity	Taizhou	1994	Electricity	10,167	7.3%
4.	Supplier E	A company principally engaged in development, production, sales and of installation of waste treatment equipment	Hangzhou	2014	Potassium permanganate, sodium hypochlorite	1,870	1.4%
5.	Supplier D	A company principally engaged in wholesaling and retailing of water supply equipment raw materials	Taizhou	2011	Pipeline materials	1,600	1.1%

Year ended 31 December 2018

Rank	Supplier	Background	Location	Year in which business relationship with our Group commenced	Materials sourced/ service provided	Total purchase amount	Percentage of our total purchase (excluding purchase for the Discontinued Operations and from contractors)
						(RMB'000)	
1.	Changtan Reservoir Affairs Centre *(note)*	A public institution under the People's Government of Huangyan District responsible for the administration of Changtan Reservoir	Taizhou	1995	Raw water	132,616	78.9%
2.	Supplier B	A state-owned company principally engaged in the supply of electricity	Taizhou	1995	Electricity	18,757	11.2%
3.	Supplier C	A state-owned company principally engaged in the supply of electricity	Taizhou	1994	Electricity	10,626	6.3%
4.	Supplier E	A company principally engaged in development, production, sales and of installation of waste treatment equipment	Hangzhou	2014	Potassium permanganate, sodium hypochlorite	1,907	1.1%
5.	Supplier F	A company principally engaged in production of chemicals	Tongxiang	2012	Composite polyaluminium chloride	1,254	0.8%

Six months ended 30 June 2019

Rank	Supplier	Background	Location	Year in which business relationship with our Group commenced	Materials sourced/ services provided	Total purchase amount	Percentage of our total purchase (excluding purchase for the Discontinued Operations and from contractors)
						(RMB'000)	
1.	Changtan Reservoir Affairs Centre *(note)*	A public institution under the People's Government of Huangyan District responsible for the administration of Changtan Reservoir	Taizhou	1995	Raw water	61,376	81.4%
2.	Supplier B	A state-owned company principally engaged in the supply of electricity	Taizhou	1995	Electricity	8,201	10.9%
3.	Supplier C	A state-owned company principally engaged in the supply of electricity	Taizhou	1994	Electricity	4,047	5.4%
4.	Supplier F	A company principally engaged in production of chemicals	Tongxiang	2012	Composite polyaluminium chloride	550	0.7%
5.	Supplier G	A state-owned company principally engaged in the supply of electricity	Wenling	1995	Electricity	506	0.7%

Note: Before 2018, we paid both the raw water procurement fee and the water resources fee to Changtan Reservoir Affairs Centre. Pursuant to Notice 261, we are required by the local government to pay the water resources fee to Taizhou Water Bureau (台州水利局). For the year ended 31 December 2018, the water resources fee paid to Taizhou Water Bureau (台州水利局) amounted to RMB52.8 million, representing 31.4% of our total purchase (excluding purchase in Discontinued Operations and from contractors). For the six months ended 30 June 2019, the water resources fee paid to Taizhou Water Bureau (台州水利局) amounted to RMB24.5 million, representing 32.5% of our total purchase (excluding purchase from contractors).

For the three years ended 31 December 2018 and the six months ended 30 June 2019, we engaged contractors in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). Set out below are the brief particulars of the major contractors engaged by during the Track Record Period:

	Contractor	Background	Total purchase amount in the relevant year/period
			(RMB'000)
Year ended 31 December 2016	Contractor A	A company principally engaged in design, consulting and construction businesses	12,983
Year ended 31 December 2017	Contractor B	A company principally engaged in construction business	18,891
	Contractor A	A company principally engaged in design, consulting and construction businesses	10,040
Year ended 31 December 2018	Contractor C	A company principally engaged in tunnel construction business	43,128
	Contractor D	A company principally engaged in raw water pipeline construction business	39,807
	Contractor E	A company principally engaged in laying foundation construction business	29,927
	Contractor F	A company principally engaged in tunnel construction business	29,019
	Contractor G	A company principally engaged in tunnel construction business	27,883
Six months ended 30 June 2019	Contractor C	A company principally engaged in tunnel construction business	38,113
	Contractor H	A company principally engaged in raw water pipeline construction business	35,749
	Contractor I	A company principally engaged in raw water pipeline construction business	26,839

Contractor	Background	Total purchase amount in the relevant year/period
		(RMB'000)
Contractor J	A company principally engaged in tunnel construction business	26,485
Contractor B	A company principally engaged in construction business	16,220

None of our Directors, respective close associates of our Directors or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our share capital as of the Latest Practicable Date, had any interest in any of the above contractors during the Track Record Period.

SALES AND MARKETING

Due to the nature of our businesses, we generally do not engage in any active sales and marketing efforts in customer procurement.

INVENTORY

During the Track Record Period, our inventories mainly comprised chemicals used in our water treatment process for the Continued Operations. For more details, please refer to "Financial Information — Description of selected items of the consolidated statements of financial position — Inventories" of this prospectus.

RESEARCH AND DEVELOPMENT

Given the nature of our Group's business, we did not undertake major research and development works during the Track Record Period.

AWARDS AND CERTIFICATIONS

The following table sets forth the major awards received by us:

Date of grant	Award/ Certification	Awarded Company	Issuing authority/ institution
4 February 2017	2016 Performance-Oriented Advanced Group (2016年實績論英雄先進實體)	Our Company	Taizhou City Committee of the Communist Party of China, Taizhou People's Government
4 September 2017	Youth Civilisation Unit (青年文明號)	Taizhou City Water	CPC Youth of Zhejiang Province Committee, Zhejiang Administration of Work Safety, "Youth Civilisation Unit" of Zhejiang Province, "Outstanding Youth in Post" Event Organizing Committee
27 November 2017	The Sixth session of Taizhou Advanced Enterprise for Harmonious Labor Relation (第六輪創建和諧勞動關係先進單位)	Our Company	Taizhou Leading Group for Harmonious Labor Relation
28 December 2017	ISO9001:2015	Taizhou City Water	WIT Assessment
28 December 2017	ISO14001:2015	Taizhou City Water	WIT Assessment
28 December 2017	OHSAS18001:2007	Taizhou City Water	WIT Assessment
27 March 2018	Laboratory Accreditation Certificate	Taizhou City Water	China National Accreditation Service for Conformity Assessment

COMPETITION

According to the Frost & Sullivan Report, China's municipal water and raw water supply industry is highly fragmented and has relatively strong regional barriers. Local governments usually tend to choose local state-owned enterprises as the operators of municipal water supply plants and raw water supply. As a result, state-owned enterprises generally have very strong presence in this industry. In addition, entry barriers such as obtaining government authorisation, heavy capital investment in the construction of the relevant infrastructures and related facilities and upgrading water treatment facilities prevent the entry of new market-players. It is expected that state-owned enterprises are still likely to hold very strong position in municipal water and raw water supply industry in China.

INTELLECTUAL PROPERTY

We rely on a combination of laws and regulations including but not limited to copyright and trademark laws, as well as confidentiality agreements signed by our senior management and key staff to protect our intellectual property rights. For details of our intellectual property rights, please refer to "Statutory and general information — B. Further information about the business of our Company — 2. Intellectual property rights of our Group" in Appendix VI to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any intellectual property rights infringement that had a material impact on us. We may be subject to claims from third parties claiming that we are infringing on their intellectual property rights.

PROPERTIES

Our headquarter is located at No. 308, Yin Quan Road, Xicheng Street, Huang Yan District, Taizhou, Zhejiang Province, the PRC. Our property interests principally consist of the land and buildings owned by us with respect to infrastructure, facilities, water treatment plant and pipelines for our water supply system.

As of 31 December 2018, each of our property interests had a carrying amount less than 15% of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which require a valuation report with respect to all our Group's interests in land or buildings.

Owned properties

As of the Latest Practicable Date, we held land use rights of 18 parcels of land, eight of which are allotted land and ten of which are granted land. The aggregate site area of these parcels of land is 660,627.19 m^2, which are used for public utilities purpose. Details of the land use rights held by us are set out below:

	Land use rights certificate	Land nature	Site area (m^2)	Location	Expiry date	Usage
1	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018578	Allotted land	16,551.00	Fanrong Village, Yuanqiao Town	–	Public facilities
2	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018592	Allotted land	2,942.52	Qianjiang Village, Beiyang Town	–	Public facilities
3	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018605	Allotted land	7,002.55	Niuyoutang Village, Pingtian Township	–	Public facilities
4	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018606	Allotted land	5,230.06	Luoyu Village, Gaoqiao Street	–	Public facilities
5	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018596	Allotted land	4,034.92	Qianjiang Village, Beiyang Town	–	Public facilities
6	Zhe (2019) Taizhou Huangyan Immovable Properties Right Certificate No. 0010325	Allotted	14,564.00	Linjiaqiao Village, Beiyang Town	–	Public facilities
7	Zhe (2019) Taizhou Huangyan Immovable Properties Right Certificate No. 0010326	Allotted	8,235.30	Luoyu Village, Gaoqiao Street	–	Public facilities
8	Zhe (2019) Taizhou Huangyan Immovable Properties Right Certificate No. 0010327	Allotted	11,580.60	Dong'ao Village, Chengjiang Street	–	Public facilities
9	Zhe (2019) Taizhou Huangyan Immovable Properties Right Certificate No. 0010328	Granted	1,246.60	Changtan Village, Beiyang Town	2053.06.01	Public facilities
10	Zhe (2019) Taizhou Luqiao Immovable Properties Right Certificate No. 0007056	Granted	2,930.30	No. 565-5, Xin An West Street, Lubei Road, Luqiao District, Taizhou	2053.04.07	Public facilities
11	Zhe (2019) Taizhou Luqiao Immovable Properties Right Certificate No. 0007057	Granted	3,565.30	No. 565-5, Xin An West Street, Qianglihe Village, Lubei Road, Luqiao District, Taizhou	2053.04.07	Public facilities
12	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018575	Granted land	6,452.30	No. 308-330, Yinquan Road, Xicheng Street	2061.05.18	Public facilities

	Land use rights certificate	Land nature	Site area (m^2)	Location	Expiry date	Usage
13	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018613	Granted land	32,625.51	No. 308-330, Yinquan Road, Xicheng Street	2053.04.02	Public facilities
14	Zhe (2018) Taizhou Immovable Properties Right Certificate No. 0006670	Granted land	245,558	South of Dongfang Avenue and west of Planned Road, Taizhou Bay Economy Zone	2067.05.09	Public facilities
15	Zhe (2019) Yuhuan Immovable Properties Right Certificate No. 0002372	Granted land	133,333	Agricultural Tourism Park, Northern Area of Yuhuan Economic Development Zone	2069.01.21	Public facilities
16	Zhe (2019) Taizhou Luqiao Immovable Properties Right Certificate No. 0010045	Granted land	150,481.90	No. 9, Luoyang East Road, Zhang'ao Village, Luoyang Street, Luqiao District, Taizhou	2059.01.14	Public facilities
17	Wen Guo Yong (2017) No. G4798	Granted land	8,737.33	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	2053.04.24	Public infrastructure facilities
18	Zhe (2018) Wenling Immovable Properties Right Certificate No. 0015498	Granted land	5,556	Tianyangli Village, Zeguo Town, Wenling City	2068.06.21	Public facilities

According to the PRC Land Administration Law (《中華人民共和國土地管理法》), land used for construction purpose must be obtained by way of granted land except the land is for, among others, water conservation and engineering infrastructure, and in such case, the land can be obtained by way of allotted land. The Circular of the State Council on Promoting the Economical and Intensive Use of Land (No. 3 [2008] of the State Council) (《國務院關於促進節約集體用地的通知》(國發[2008]3號)) and Land Allocation Catalogue (Order of the Ministry of Land and Resources [2001] No. 9) (《劃撥用地目錄》(國土資源部令[2001]第9號)) also provide that land can be allotted for use by government supportive energy, transport and water conservation infrastructure projects. Taizhou Natural Resources and Planning Bureau (台州市自然資源和規劃局) issued a confirmation on 6 June 2019 whereby it is confirmed that the relevant land certificates have been legally issued to the above allotted lands, and we are entitled to continue the use of such lands. Based on the analysis above-mentioned, subject to any material changes in the PRC land administration laws and our change of the usage, our PRC Legal Adviser is of the view that we can continue to use the allotted land for the current usage.

As of the Latest Practicable Date, we had 12 building properties with a total gross floor area of 33,230.08 m^2. These building properties include infrastructure and water treatment plant for our water supply system. Details of the building properties owned by us are set out below:

	Building certificate/immovable property right certificate	Gross floor area (m^2)	Location	Usage
1	Zhe (2017) Taizhou Huangyan Immovable Properties Right Certificate No. 0018613	7,839.79	No. 308-330, Yinquan Road, Xicheng Street	Public facilities
2	Zhe (2019) Taizhou Huangyan Immovable Properties Right Certificate No. 0010328	368.01	Chang Tan Village, Bei Yang Town	Public facilities
3	Zhe (2019) Taizhou Luqiao Immovable Properties Right Certificate No. 0007056	596.11	No. 565-5, Xin An West Street, Lubei Road, Luqiao District, Taizhou	Non-residential
4	Zhe (2019) Taizhou Luqiao Immovable Properties Right Certificate No. 0010045	20,462.70	No. 9, Luoyang East Road, Zhang'ao Village, Luoyang Street, Luqiao District, Taizhou	Public facilities
5	Wen Fang Quan Zheng Ze Guo Zi No. 157200	301.84	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
6	Wen Fang Quan Zheng Ze Guo Zi No. 157202	480.48	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
7	Wen Fang Quan Zheng Ze Guo Zi No. 157204	106.58	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
8	Wen Fang Quan Zheng Ze Guo Zi No. 157205	22.01	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
9	Wen Fang Quan Zheng Ze Guo Zi No. 157207	422.55	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
10	Wen Fang Quan Zheng Ze Guo Zi No. 157209	172.66	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
11	Wen Fang Quan Zheng Ze Guo Zi No. 157211	335.73	No. 367, Hangwen North Road, Changjing Village, Zeguo Town	Non-residential
12	Zhe (2018) Wenling Immovable Properties Right Certificate No. 0015498	2,121.62 (including an area of 10.16 m^2 with undefined ownership)	Tianyangli Village, Zeguo Town, Wenling City	Public facilities

As at the Latest Practicable Date, our Group did not have leased properties used for our business and operations. In relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), we entered into agreements with the relevant local governments, bureau of land and resources and village committees whereby we are entitled to temporarily occupy the land during the construction of the water pipelines tunnels, etc.. We would reinstate the land after completion of the construction of the water pipelines and the right to occupy the land ceased.

During the Track Record Period, the amount incurred by us in leasing land for the constructions of water supply pipelines was nil, RMB19.8 million, RMB53.1 million and nil, respectively, which was recorded as additions of right-of-use assets, and the depreciation provided for these right-of-use assets, which was capitalised in property, plant and equipment, was nil, RMB1.9 million, RMB12.6 million and RMB16.7 million, respectively. Please also refer to "Financial information — Description of selected items of the consolidated statements of financial position — Right-of-use assets and lease liabilities" of this prospectus.

As advised by our PRC Legal Adviser, we have obtained and legally held the land use right certificates and/or immovable properties right certificates/building ownership right certificates in respect of these parcels of land and the building properties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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 "Regulatory overview" of this prospectus.

Our Group is subject to certain environmental risks. At the construction of the project, we may be subject to environmental risks of water pollution, air pollution, noise pollution, and also land run-off and overall ecological impacts. As such, before the construction of a water supply system, it is required that the feasibility study and the project design have to include a detailed analysis and assessment on environmental impacts of the project, which have to be approved by the relevant environmental protection authority. We closely and continuously monitor the construction works and require our contractors to strictly comply with the relevant environmental laws and regulations during the construction period.

Our daily operations may also generate solid waste such as sludge from the process of sedimentation and filtration. We engage Independent Third Party to dispose of and treat the solid waste in accordance with the relevant laws and regulations and the requirements as set out in the government-approved environmental impact assessment report.

We are also exposed to carbon emission arises from the consumption of electricity in our operations. We have implemented various energy conservation measures in minimizing carbon emissions, including setting a target for energy consumption, installing metering devices for electricity, water and heat, and encouraging our staff in energy-saving during production process and office work. We have implemented a digitalised system in our water treatment process and such system monitors the key bench indicators on a real-time basis and would automatically make adjustments throughout our water treatment process to effectively control the water volume and water quality, and ultimately minimise wastage and reduce costs.

We believe that it is crucial to comply with the relevant environmental laws and regulations for our long-term development and success. Any non-compliances of the environmental laws and regulations not only may subject our Group to penalties but also harm the environment in an irreversible way. Any penalty imposed by the relevant authorities may have an adverse impact on our financial position and create a negative corporate image on us, which may affect our development of future projects. Accordingly, we have been pursuing a sustainable approach to the environment, as well as proper consideration of our social and economic responsibilities to the wider community. During the Track Record Period and up to the Latest Practicable Date, we did not have any material environment-related incident, and we had not been penalised or subject to investigation by competent government authority for environment-related violations.

During the Track Record Period, we did not incur material cost relating to the compliance with the applicable environmental protection laws and regulations.

Our PRC Legal Adviser has confirmed that we comply with all relevant PRC environmental protection laws and regulations in all material respects in order to conduct the business currently carried by us.

INSURANCE

We carry various insurance policies covering fixed assets, third party liabilities, loss and damage to construction equipment and machinery, and loss of construction materials. As of the Latest Practicable Date, we also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

We do not carry any production liability insurance, business interruption insurance, third-party liability insurance for personal injury or property or environmental damage arising from accidents on their property or relating to their operations, which is consistent with what we believe to be the industry practice in the PRC. We believe that our insurance policies are adequate and consistent with the industry practice in the PRC. Our Directors confirm that as of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

During the Track Record Period, we did not experience any insurance claim or receive any claim regarding the safety and quality of our products, which was material to us. For details of the risk relating to our insurance coverage, please refer to "We may not have adequate insurance to cover all hazards common to the water supply industry to which our operations are subject" in "Risk factors" of this prospectus.

OCCUPATIONAL HEALTH AND SAFETY CONTROL

We are subject to the PRC laws and regulations on labour, safety and work-related incidents. We also provide safety-related training to our employees to increase their awareness of work safety. We also conduct regular inspection and maintenance checks on our equipment to ensure they meet the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

We believe our health and safety control measures are adequate and comply with applicable laws and regulations in all material respects. During the Track Record Period and as of the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment.

During the Track Record Period and up to the Latest Practicable Date, we had complied with the PRC workplace safety regulatory requirements in all material respects and had not had any incidents or complaints which had materially and adversely affected our operations.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 182 employees. All of our employees are based in the PRC. The following table sets out the functional distribution of our Group's employees as of the Latest Practicable Date:

Function	Total
Executive Directors and senior management	7
Production and operation	91
Project management	27
Finance	14
Administration and human resources	43
	182

Our employees are generally remunerated by way of fixed salary. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees in conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our employees are also entitled to a performance-based bonus, paid leave and various subsidies. Our total employees' costs and benefit excluding Directors and senior management from our Continued Operations for each of the three years ended 31 December 2018, and the six months ended 30 June 2019, were RMB59.2 million, RMB59.9 million, RMB53.2 million and RMB27.0 million respectively, which accounted for 14.4%, 12.9%, 10.5% and 12.0% of our total revenue in the corresponding period.

We believe that our management policies, working environment, employee development opportunities and employee benefits have together contributed to good employer-employee relations and successful employee retention. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not encountered any difficulty in recruitment and retention of staff for our operation or experienced any disruption in our operation as a result of labour disputes with our employees in all material respects.

Our Group recruits employees based on a number of factors such as their working experience, educational background and vacancy needs.

In order to increase the overall competitiveness of our workforce and to attract and retain existing employees and strengthen their knowledge, skill level and quality, our Group places strong emphasis on the training of its employees. We provide trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), our PRC subsidiaries are required to make social insurance contributions for its employees in the PRC. As of the Latest Practicable Date, each of our PRC subsidiaries maintained a social insurance scheme that covers basic pension insurance, unemployment, work-related injuries, medical and maternity expenses for our PRC employees. Our PRC subsidiaries are also required under the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例) to deposit housing provident funds for their employees in the PRC.

LICENCES AND PERMITS

The table below sets forth the details of our material licenses and permits for our water supply business as of the Latest Practicable Date:

Licence/permit	Holder of licence/ permits	Date of grant	Issuing authority	Validity period
Water Intake Permit (《取水許可證》)	Our Company	10 May 2019	Taizhou Water Bureau (台州市水利局)	10 May 2019 to 25 April 2021 *(note)*
Health Permit (《衛生許可證》)	Taizhou City Water	23 November 2017	Taizhou Health and Family Planning Commission	23 November 2017 to 22 November 2021
Health Permit (《衛生許可證》)	Wenling Zeguo Water Supply	4 July 2018	Wenling Health and Family Planning Bureau	4 July 2018 to 3 July 2022

Note: The Water Intake Permit is for a period of about two years as we expect to commence to apply for a Water Intake Permit in 2021 with a new water volume limit we can draw from Changtan Reservoir in light of the expected commencement of operation of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

For more information regarding the laws and regulations that we are subject to in the PRC, please refer to the section "Regulatory overview" of this prospectus.

We are advised by our PRC Legal Adviser that during the Track Record Period and as of the Latest Practicable Date, except as disclosed in this prospectus, we had obtained and maintained, all necessary license, permit, approval and registrations that are material for our business operations. We do not expect any legal impediment to renew these licenses upon their expiration.

GOVERNMENT REGULATIONS

As of the Latest Practicable Date, our business operations in the PRC were subject to other than those laws and regulations generally applicable to companies and businesses operating in China. A summary of the relevant PRC laws and regulations has been set out in "Regulatory overview — Business qualifications and licences" of this prospectus.

COMPLIANCE WITH APPLICABLE LAWS

As of the Latest Practicable Date, our PRC Legal Adviser confirmed that each member of our Group had obtained the requisite governmental licences, permits and certification and renewals thereof which are necessary for its operations, and had complied, in all material aspects, with all applicable laws and regulations in the jurisdiction where it was operating.

LEGAL COMPLIANCE AND PROCEEDINGS

As we have obtained written confirmations from the relevant competent authorities, our Directors are of the opinion that, during the Track Record Period and as of the Latest Practicable Date, we have complied with the PRC laws and regulations relevant to our business operations in all material respects. Our PRC Legal Adviser advised us that, during the Track Record Period and as of the Latest Practicable Date, we were not involved in any non-compliant matters which would materially and adversely affect our business operations.

As of the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or results of operations.

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. Our internal control system and procedures are designed to meet our specific business needs and to minimise our risk exposure. In preparation of the Listing, we engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review of internal control over our major business processes and provide recommendations on the findings identified with reference to the Internal Control Framework released in 2013 by the Committee of Sponsoring Organisation of the Tradeway Commission so as to assist our Group in improving our internal control and risk management systems and corporate governance.

The Internal Control Consultant conducted an internal control review in May 2019 (the "**Internal Control Review**") on, among others, control environment, risk management, information and communication, monitoring of controls, operation level controls such as revenue cycle, procurement cycle, expenditure cycle, etc. and provided recommendations to enhance the internal control system of our Group. With reference to the Internal Control Review, the Internal Control Consultant made certain recommendations (the "**Recommendations**") to us to enhance our internal controls and corporate governance practices. The Internal Control Consultant conducted a follow-up review in June 2019 to review the status of the management action taken by our Group to address the Recommendations of the Internal Control Review (the "**Follow-up Review**"). We have

adopted and implemented the recommendations provided by the Internal Control Consultant prior to the Follow-up Review and therefore, the Internal Control Consultant did not have any further recommendation and has not identified any material findings which may have material impact on the effectiveness of our internal control system in the Follow-up Review.

Based on the result of the Follow-up Review, our Directors confirmed that we had adopted all of the internal measures and policies recommended by the Internal Control Consultant and did not have any significant deficiencies in our internal control system as of the Latest Practicable Date.

In order to continuously improve our corporate governance, as well as to prevent recurrence of any non-compliance, we intend to adopt or have adopted the following measures:

— our Directors, Supervisors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal advisers prior to Listing. We will continue to arrange various trainings to be provided by the legal advisers engaged by us from time to time and/or any appropriate accredited institutions to update our Directors, Supervisors and senior management and relevant employees on the relevant laws and regulations;

— our Group appointed a financial controller and the joint company secretaries to oversee the financial, accounting and company secretarial matters of our Group. Our Directors believe that our Company will be able to draw on their expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see "Directors, Supervisors and senior management" of this prospectus for further details; and

— our Group has established an audit committee comprising two independent non-executive Directors and one non-executive Director to oversee the financial reporting and internal control procedures of our Group, and aims to review the effectiveness of our Group's internal control system.

Based on the implementation of the enhanced internal policies and remedial actions, our Group's business nature and operation scale, our Directors are of the view that (i) our Group's internal control measures are adequate and effective to prevent the recurrence of the non-compliance incidents; and (ii) our Group has adequate and effective internal control procedures in place.

We are committed to achieving the required corporate governance standards following the Listing. In order to comply with the requirements under the Listing Rules, in particular, the code provision in the Corporate Governance Code, we have adopted the following measures prior to the Listing:

— we have established the audit committee, remuneration committee and nomination committee with respective written terms of reference in accordance with the code provisions contained in the Corporate Governance Code;

— our Board has adopted the terms of reference with regard to corporate governance and a communication protocol with our Shareholders in accordance with the code provision of the Corporate Governance Code;

— we will arrange appropriate insurance cover on our Directors' liabilities in respect of legal proceedings against our Directors arising out of corporate activities before the Listing;

— our Directors will operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested excepted in certain circumstances as set out in the Articles;

— pursuant to the Corporate Governance Code, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our costs; and

— our Directors will attend professional development seminar including but not limited to the corporate governance to ensure on-going compliance after the Listing.

In light of the above, our Directors believe that we are able to fully comply with the Corporate Governance Code. We will also review our internal policies on corporate governance from time to time and will comply with the relevant disclosure requirements under the Listing Rules.

CONNECTED PERSONS

1. Wenling Water Supply

Wenling Water Supply principally engages in the business of centralised water production and supply services in Wenling City. On 30 May 2011, Wenling Water Supply acquired 18% of the equity interest of Taizhou City Water. As of the Latest Practicable Date, Wenling Water Supply was a substantial shareholder of our subsidiary, Taizhou City Water, holding 18% of the equity interest of Taizhou City Water. In light of the foregoing, Wenling Water Supply is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

2. Yuhuan Water Supply

Yuhuan Water Supply principally engages in the business of tap water supply services in Yuhuan City. As of the Latest Practicable Date, Yuhuan Water Supply was a wholly-owned subsidiary of Yuhuan Water Group which in turn held 40% of the equity interest of Taizhou South Bay Water Supply since March 2018. In light of the foregoing, Yuhuan Water Supply is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

3. Zhejiang Huangyan Water Supply

Zhejiang Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As of the Latest Practicable Date, Zhejiang Huangyan Water Supply was an indirect wholly-owned subsidiary of Huangyan SAOG which in turn held 17.79% shareholding interest in our Company. In light of the foregoing, Zhejiang Huangyan Water Supply is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

4. Taizhou Luqiao Water Supply

Taizhou Luqiao Water Supply principally engages in the business of centralised water supply services in Luqiao District of Taizhou. As of the Latest Practicable Date, Taizhou Luqiao Water Supply was an indirect wholly-owned subsidiary of Taizhou Luqiao Public Assets, a substantial shareholder of our Company. In light of the foregoing, Taizhou Luqiao Water Supply is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

5. Taizhou Urban Construction

Taizhou Urban Construction principally engages in the business of investment and management of infrastructure construction projects and operation of state-owned assets. As of the Latest Practicable Date, Taizhou Urban Construction held 28.83% shareholding interest in our Company and was a substantial shareholder of our Company. In light of the foregoing, Taizhou Urban Construction is a connected person of our Company pursuant to Rule 14A.07 of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing connected transaction which is exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements

Taizhou Urban Construction, our substantial shareholder, has provided guarantee for the CDB Loan. Please refer to "Relationship with Taizhou SCOG — Independence from Taizhou SCOG — Financial independence" in this prospectus for further details.

Taizhou Urban Construction is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the guarantee provided by Taizhou Urban Construction in relation to the CDB Loan will constitute continuing connected transaction for our Company under Chapter 14A of the Listing Rules.

As our Directors (including the independent non-executive Directors) are of the view that the guarantee provided by Taizhou Urban Construction in relation to the CDB Loan is on normal commercial terms or better from our Company's perspective and the guarantee is not secured by assets of our Company, the provision of guarantee is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the transactions set forth below will constitute non-exempt continuing connected transactions (the "**Non-exempt Continuing Connected Transactions**") of our Company for the purpose of Chapter 14A of the Listing Rules:

Continuing connected transactions subject to reporting, annual review and announcement requirements but exempt from circular and independent shareholders' approval requirements

Provision of municipal water supply services to our connected persons

Background of and reasons for the transactions

During the Track Record Period, our Group subsidiary, namely, Taizhou City Water, has been providing municipal water supply services in or incidental to our ordinary and usual course of business to our connected persons (i.e. Wenling Water Supply and Yuhuan Water Supply), which will then provide tap water for use by the residents and enterprises in Wenling City and Yuhuan City.

We expect that our Group subsidiary, namely, Taizhou City Water, will continue to provide municipal water supply services to our connected persons (i.e. Wenling Water Supply and Yuhuan Water Supply) upon Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

Details of the Wenling Water Supply Framework Agreement and Yuhuan Water Supply Framework Agreement to be entered into between the connected persons and our Group subsidiary (namely, Taizhou City Water) are further set forth below:

a. Wenling Water Supply Framework Agreement

Nature of transaction

On 27 October 2019, Taizhou City Water and Wenling Water Supply entered into a water supply framework agreement (the "**Wenling Water Supply Framework Agreement**") for a renewable term commencing from the Listing Date and ending on 31 December 2021. Pursuant to the said agreement, Taizhou City Water shall continue to provide Wenling Water Supply with municipal water supply services. Payment has been, and will continue after Listing to be, made every month based on the volume of municipal water supplied.

Historical transaction value

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Wenling Water Supply	92,969	111,088	123,417	54,419

Proposed annual caps

As a continuation of the municipal water supply contract between Taizhou City Water and Wenling Water Supply, the proposed annual caps for the sales of municipal water to be paid by Wenling Water Supply for the municipal water supply services under the Wenling Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Wenling Water Supply	111,833	121,015	122,919

Basis of annual caps

The prices of the sales of municipal water supply services provided by Taizhou City Water to Wenling Water Supply will continue to be determined in accordance with the standing arrangements between Taizhou City Water and Wenling Water Supply on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

Implications under the Listing Rules

As Wenling Water Supply is a connected person at the subsidiary level and our Board (including all the independent non-executive Directors) has approved the Wenling Water Supply Framework Agreement and the transactions contemplated thereunder and all the independent non-executive Directors have confirmed that the terms of the Wenling Water Supply Framework Agreement are fair and reasonable, on normal commercial terms or better and in the interests of our Company and our Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the Wenling Water Supply Framework Agreement are exempt from the circular, independent shareholders' approval requirements but are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

b. Yuhuan Water Supply Framework Agreement

Nature of transaction

On 27 October 2019, Taizhou City Water and Yuhuan Water Supply entered into a water supply framework agreement (the "**Yuhuan Water Supply Framework Agreement**") for a renewable term commencing from the Listing Date and ending on 31 December 2021. Pursuant to the said agreement, Taizhou City Water shall continue to provide Yuhuan Water Supply with municipal water supply services. Payment has been, and will continue after Listing to be, made every month on the basis of the volume of municipal water supplied.

Historical transaction value

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Yuhuan Water Supply	36,161	51,082	56,125	18,934

Proposed annual caps

As a continuation of the municipal water supply contract between Taizhou City Water and Yuhuan Water Supply, the proposed annual caps for the sales of municipal water to be paid by Yuhuan Water Supply for the municipal water supply services under the Yuhuan Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Yuhuan Water Supply	47,794	54,777	55,124

Basis of annual caps

The prices of the sales of municipal water supply services provided by Taizhou City Water to Yuhuan Water Supply will continue to be determined in accordance with the standing arrangements between Taizhou City Water and Yuhuan Water Supply on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

Implications under the Listing Rules

As Yuhuan Water Supply is a connected person at the subsidiary level and our Board (including all the independent non-executive Directors) has approved the Yuhuan Water Supply Framework Agreement and the transactions contemplated thereunder and all the independent non-executive Directors have confirmed that the terms of the Yuhuan Water Supply Framework Agreement are fair and reasonable, on normal commercial terms or better and in the interests of our Company and our Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the Yuhuan Water Supply Framework Agreement are exempt from the circular, independent shareholders' approval requirements but are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Continuing connected transactions subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements

Provision of raw water and/or municipal water supply services to our connected persons

Background of and reasons for the transactions

During the Track Record Period, our Company and our Group subsidiary, namely, Taizhou City Water, have been providing raw water and/or municipal water supply services in or incidental to our ordinary and usual course of business to our connected persons (namely, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply), which will then provide tap water (after purification of raw water, if necessary) for use by the residents and enterprises in Huangyan District and Luqiao District.

We expect that our Company and our Group subsidiary, namely, Taizhou City Water, will continue to provide raw water and/or municipal water supply services to our connected persons (namely, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply) upon Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

Details of the Zhejiang Huangyan Water Supply Framework Agreement, Taizhou Luqiao Raw Water Supply Framework Agreement and Taizhou Luqiao Municipal Water Supply Framework Agreement to be entered into between the connected persons on one hand and our Company and our Group subsidiary, namely, Taizhou City Water, on the other hand are further set forth below:

a. Zhejiang Huangyan Water Supply Framework Agreement

Nature of transaction

On 27 October 2019, our Company and Zhejiang Huangyan Water Supply entered into a water supply framework agreement (the "**Zhejiang Huangyan Water Supply Framework Agreement**") for a renewable term commencing from the Listing Date and ending on 31 December 2021. Pursuant to the said agreement, our Company shall continue to provide Zhejiang Huangyan Water Supply with raw water supply services. Payment has been, and will continue after Listing to be, made every month on the basis of the volume of raw water supplied.

Historical transaction value

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of raw water supply services provided by our Company to Zhejiang Huangyan Water Supply	31,814	34,562	40,480	19,893

Proposed annual caps

As a continuation of the raw water supply contract between our Company and Zhejiang Huangyan Water Supply, the proposed annual caps for the sales of raw water to be paid by Zhejiang Huangyan Water Supply for the raw water supply services under the Zhejiang Huangyan Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Amount of raw water supply services provided by our Company to Zhejiang Huangyan Water Supply	38,941	41,270	41,829

Basis of annual caps

The prices of the sales of raw water supply services provided by our Company to Zhejiang Huangyan Water Supply will continue to be determined in accordance with the standing arrangements between our Company and Zhejiang Huangyan Water Supply on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

Implications under the Listing Rules

The proposed annual cap amounts of the transactions under the Zhejiang Huangyan Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are RMB38,940,797, RMB41,270,133 and RMB41,828,556, respectively, and each of the percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of the Zhejiang Huangyan Water Supply Framework Agreement is, on an annual basis, more than 5%. Accordingly, the transactions will be subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

b. Taizhou Luqiao Raw Water Supply Framework Agreement

Nature of transaction

On 27 October 2019, our Company and Taizhou Luqiao Water Supply entered into a raw water supply framework agreement (the "**Taizhou Luqiao Raw Water Supply Framework Agreement**") for a renewable term commencing from the Listing Date and ending on 31 December 2021. Pursuant to the said agreement, our Company shall continue to provide Taizhou Luqiao Water Supply with raw water supply services. Payment has been, and will continue after Listing to be, made every month on the basis of the volume of raw water supplied.

Historical transaction value

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of raw water supply services provided by our Company to Taizhou Luqiao Water Supply	23,808	26,073	30,707	14,396

Proposed annual caps

As a continuation of the raw water supply contract between our Company and Taizhou Luqiao Water Supply, the proposed annual caps for the sales of raw water to be paid by Taizhou Luqiao Water Supply for the raw water supply services under the Taizhou Luqiao Raw Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	2020	2021
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Amount of raw water supply services provided by our Company to Taizhou Luqiao Water Supply	31,184	32,089	32,424

Basis of annual caps

The prices of the sales of raw water supply services provided by our Company to Taizhou Luqiao Water Supply will continue to be determined in accordance with the standing arrangements between our Company and Taizhou Luqiao Water Supply on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

c. Taizhou Luqiao Municipal Water Supply Framework Agreement

Nature of transaction

On 27 October 2019, Taizhou City Water and Taizhou Luqiao Water Supply entered into a municipal water supply framework agreement (the "**Taizhou Luqiao Municipal Water Supply Framework Agreement**") for a renewable term commencing from the Listing Date and ending on 31 December 2021. Pursuant to the said agreement, Taizhou City Water shall continue to provide Taizhou Luqiao Water Supply with municipal water supply services. Payment has been, and will continue after Listing to be, made every month on the basis of the volume of municipal water supplied.

Historical transaction value

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply	55,785	61,922	66,411	30,801

Proposed annual caps

As a continuation of the municipal water supply contract between Taizhou City Water and Taizhou Luqiao Water Supply, the proposed annual caps of the sales of municipal water to be paid by Taizhou Luqiao Water Supply for the municipal water supply services under the Taizhou Luqiao Municipal Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	2020	2021
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Amount of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply	64,707	67,705	68,581

Basis of annual caps

The prices of the sales of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply will continue to be determined in accordance with the standing arrangements between Taizhou City Water and Taizhou Luqiao Water Supply on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

Implications under the Listing Rules

The proposed annual caps of the transactions under the Taizhou Luqiao Raw Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are RMB31,184,040, RMB32,088,561 and RMB32,423,715, respectively. The proposed annual caps of the transactions under the Taizhou Luqiao Municipal Water Supply Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 are RMB64,707,146, RMB67,705,448 and RMB68,580,538, respectively.

Pursuant to Rules 14A.82 and 14A.83 of the Listing Rules, the transactions under the Taizhou Luqiao Raw Water Supply Framework Agreement and Taizhou Luqiao Municipal Water Supply Framework Agreement (collectively, the "**Taizhou Luqiao Water Supply Framework Agreements**") have been aggregated. Each of the percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of the Taizhou Luqiao Water Supply Framework Agreements is, on an annual and aggregated basis, more than 5%. Accordingly, the aforesaid transactions will be subject to reporting, annual review, announcement, circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVERS

As the Non-exempt Continuing Connected Transactions (i) will continue after Listing on a recurring basis; (ii) the details of the Non-exempt Continuing Connected Transactions have been fully disclosed in this prospectus for the information of potential investors; (iii) our Directors confirmed that the Non-exempt Continuing Connected Transactions have been and will be entered into in or incidental to the ordinary and usual course of our Group's business, on normal commercial terms or better and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iv) the proposed annual caps for the transactions under each of the Non-exempt Continuing Connected Transactions as stated above in this section are fair and reasonable and are in the interests of our Company and our Shareholders as a whole, our Directors consider that strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules would be burdensome and would add unnecessary administrative costs to our Company each time when such transactions arise. The transactions under respective agreements are subject to announcement and/or circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and our Company has applied for waivers under Rule 14A.105 of the Listing Rules to exempt the Non-exempt Continuing Connected Transactions from strict compliance with the applicable requirements and the Stock Exchange has agreed to grant such waivers subject to the aggregate value of each of the Non-exempt Continuing Connected Transactions for each financial year not exceeding the corresponding annual caps as stated above in this section as well as other relevant conditions imposed by the Stock Exchange (if any) being observed.

CONFIRMATION FROM DIRECTORS/SOLE SPONSOR

Confirmation from Directors

The Directors (including the independent non-executive Directors) confirm that the above Non-exempt Continuing Connected Transactions have been and will be entered into in or incidental to the ordinary and usual course of the business of our Group, are based on normal commercial terms or better and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps for the transactions under each of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Confirmation from the Sole Sponsor

Having taken into account the information above, the Sole Sponsor concurs with the Directors' view that the above Non-exempt Continuing Connected Transactions have been and will be entered into in or incidental to the ordinary and usual course of the business of our Group, are based on normal commercial terms or better and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps for the transactions under each of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

OUR RELATIONSHIP WITH TAIZHOU SCOG

As of the Latest Practicable Date, Taizhou Urban Construction directly held 28.83% shareholding interest in our Company. Immediately following the completion of the Global Offering, Taizhou Urban Construction will hold 21.63% shareholding interest (assuming the Over-allotment Option is not exercised), or 20.84% shareholding interest (assuming the Over-allotment Option is fully exercised) in our Company.

As of the Latest Practicable Date, Taizhou SCOG directly held 80% equity interest of Taizhou Urban Construction, and indirectly held the remaining 20% equity interest of Taizhou Urban Construction through its wholly-owned subsidiary, Taizhou Financial Investment. Accordingly, Taizhou SCOG was deemed to be interested in the Shares held by Taizhou Urban Construction and therefore, together with Taizhou Financial Investment and Taizhou Urban Construction, constitute our single largest group of Shareholders upon Listing.

Taizhou SCOG is a wholly state-owned company approved by Taizhou Municipal Government and established on 23 January 2008 with the entire capital contributed by Taizhou SASAC, a PRC Government Body which is principally engaged in equity investment and management of state-owned financial assets as authorised by the relevant finance and regulatory bodies of the PRC. Taizhou SCOG does not conduct any other business or commercial activity and does not intervene in the day-to-day business operations of the entities in which it invests. For further information of Taizhou Urban Construction, please refer to "History and corporate structure — Information of our Founders" in this prospectus.

Taizhou Financial Investment is a wholly state-owned company established on 16 July 2014 and a direct wholly-owned subsidiary of Taizhou SCOG. Taizhou Financial Investment focuses on equity investment, government investment funds and asset management. Taizhou Financial Investment does not participate in the day-to-day business operations of Taizhou Urban Construction and the Company.

INDEPENDENCE FROM TAIZHOU SCOG

Our Directors consider that our Group will be able to operate independently from Taizhou SCOG and/or its close associates upon the Listing, taking into consideration the following factors:

Management independence

Our business is managed and conducted by a strong and independent Board. Upon Listing, our Board will comprise 15 Directors, comprising two executive Directors, eight non-executive Directors and five independent non-executive Directors. For a summary of the positions held by our Directors at our Company and its subsidiaries, please refer to "Directors, Supervisors and senior management" in this prospectus.

Our non-executive Directors, Mr. Wang Haibo and Mr. Wang Haiping are also directors of Taizhou SCOG and/or its close associates as set out below:

Name of Director	Position held in our Company	Taizhou SCOG or its close associates	Position held in Taizhou SCOG or its close associates
Mr. Wang Haibo	Non-executive Director	(1) Taizhou Water Resources Investment Development Co., Ltd.* (台州市水利投資開發有限公司)[1]	Supervisor
		(2) Taizhou Urban Construction	Senior manager
		(3) Zhejiang Taizhou Expressway Group Co., Ltd.* (浙江台州高速公路集團股份有限公司)[2]	Director
Mr. Wang Haiping	Non-executive Director	(1) Taizhou Urban Construction	Chief accountant
		(2) Zhejiang Taizhou Expressway Group Co., Ltd.	Director

In addition, our Supervisors, Ms. Lin Ying, Mr. Lu Huaping and Mr. Yu Changcheng are also directors and supervisors of Taizhou SCOG and/or its close associates as set out below:

Name of Supervisor	Position held in our Company	Taizhou SCOG or its close associates	Position held in Taizhou SCOG or its close associates
Ms. Lin Ying	Supervisor	(1) Taizhou SCOG	Supervisor
		(2) Taizhou Public Transportation Group Co., Ltd.* (台州市公共交通集團有限公司)[3]	Director
		(3) Taizhou Financial Investment[4]	Supervisor
		(4) Taizhou Social Development Group Co., Ltd.* (台州市社會事業發展集團有限公司)[5]	Supervisor
		(5) Taizhou Rail Transit Group Co., Ltd.* (台州市軌道交通集團有限公司)[6]	Director
		(6) Taizhou Rail Transit Real Estate Development Co., Ltd.* (台州市軌道交通置業開發有限公司)[7]	Director

Name of Supervisor	Position held in our Company	Taizhou SCOG or its close associates	Position held in Taizhou SCOG or its close associates
		(7) Taizhou Cultural Tourism Investment Development Co., Ltd.* (台州市文化旅遊投資發展有限公司)(8)	Supervisor
Mr. Lu Huaping	Supervisor	Taizhou Public Transportation Group Co., Ltd.(3)	Director
Mr. Yu Changcheng	Supervisor	Taizhou Social Development Group Co., Ltd.(5)	Supervisor

Notes:

(1) Taizhou Water Resources Investment Development Co., Ltd. is a direct wholly-owned subsidiary of Taizhou Urban Construction.

(2) Zhejiang Taizhou Expressway Group Co., Ltd. is held as to 47.04% by Taizhou Urban Construction.

(3) Taizhou Public Transportation Group Co., Ltd. is a direct wholly-owned subsidiary of Taizhou SCOG.

(4) Taizhou Financial Investment is a direct wholly-owned subsidiary of Taizhou SCOG.

(5) Taizhou Social Development Group Co., Ltd. is a direct wholly-owned subsidiary of Taizhou SCOG.

(6) Taizhou Rail Transit Group Co., Ltd. is an indirect wholly-owned subsidiary of Taizhou SCOG.

(7) Taizhou Rail Transit Real Estate Development Co., Ltd. is a direct wholly-owned subsidiary of Taizhou Rail Transit Group Co., Ltd., and is therefore an indirect wholly-owned subsidiary of Taizhou SCOG.

(8) Taizhou Cultural Tourism Investment Development Co., Ltd. is a direct wholly-owned subsidiary of Taizhou SCOG.

Since Mr. Wang Haibo and Mr. Wang Haiping are non-executive Directors, they do not participate in our daily operation and management and only participate in the decision-making process of significant matters, such as our operational and development strategies. In addition, there are sufficient non-overlapping non-executive Directors who are independent of Taizhou SCOG to provide professional advice and judgment to the Board. As such, we do not consider that Mr. Wang Haibo and Mr. Wang Haiping's overlapping directorships will give rise to any substantive conflict of interests.

Our Directors believe that our Company is able to operate its business independently from Taizhou SCOG for the following reasons:

(i) none of our senior management holds any position in Taizhou SCOG and its close associates and they therefore have little influence, if any, at the level of Taizhou SCOG;

(ii) each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. 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 close 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;

(iii) our Company has appointed five independent non-executive Directors to provide independent opinion and advice to our Board to ensure the decisions of our Directors are made after due and careful consideration. Our Directors believe that there is a strong independent element on our Board and our Board will benefit from the independent advice of the independent non-executive Directors; and

(iv) we have a senior management team which possesses extensive experience and understanding of our departmental disciplines coupled with knowledge of the industry in which our Group operates. Our Board is therefore satisfied that they are able to implement our policies and strategies independently.

In light of the above, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing its business independently from Taizhou SCOG and/or its close associates after the Listing.

Operational independence

The operations of our Group are independent of and not connected with Taizhou SCOG. We have established our own organisational structure comprising different departments, each with clear segregation of duties and responsibilities. Our Group has sufficient operational resources, research and development facilities, equipment and human resources and has not shared its operation team with Taizhou SCOG and its close associates. We own all relevant properties and intellectual properties and hold all material licences necessary to run our business.

During the Track Record Period and up to the Latest Practicable Date, none of Taizhou SCOG and its close associates has been our major supplier or customer. We have our independent access to our major suppliers and have established our own client bases.

Based on the above, our Directors believe that there is no operational dependence on Taizhou SCOG and/or its close associates.

Financial independence

During the Track Record Period and up to the Latest Practicable Date, our Group has established our financial department independent of Taizhou SCOG. We also have our own financial accounting system and an independent treasury function. We can make financial decisions independently, and Taizhou SCOG does not interfere with our use of funds. We are capable of securing financial assistance from Independent Third Parties, and have adequate

capital and facilities to operate our business independently. In addition, we manage our bank accounts independently, and do not share any bank accounts with Taizhou SCOG. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with Taizhou SCOG and the related parties.

Taizhou Urban Construction has provided guarantee for the CDB Loan, details of which are set forth below:

Borrower	Annual interest rate	Withdrawal date	Maturity date	Securities and guarantees	Outstanding principal balance as of 31 October 2019
					(unaudited)
Our Company	2.8%	23 December 2016	22 December 2041	Guaranteed by Taizhou Urban Construction	RMB565 million

The CDB Loan is a special construction fund granted by China Development Fund Co., Ltd. to our Company through China Development Bank. As a policy-based loan, the proceeds of the CDB Loan shall be used by Binhai Water for construction of water diversion projects in Taizhou. As such, our Directors believe that it would be highly difficult and impracticable for the Company to obtain the consent from the NDRC to release the guarantee under the CDB Loan.

Taking into the following circumstances and measures taken by our Group, we believe that the continuation of the above financing arrangement after Listing will not significantly impact our ability to operate independently from Taizhou SCOG and its close associates for the following reasons:

(a) the CDB Loan will be our only loan with guarantees provided by Taizhou SCOG and its close associates upon Listing. As of 31 October 2019, the outstanding principal balance of the CDB Loan amounted to RMB565 million, representing 41.29% of the total indebtedness of our Group. Nonetheless we are capable of obtaining financing from external independent sources, if necessary, without reliance on Taizhou SCOG and its close associates. As of 31 October 2019, we were granted and drew down loan facilities in an aggregate principal amount of at least RMB16,001 million without any security or guarantee provided by Taizhou SCOG and its close associates from independent financial institutions; and

(b) we had been able to raise funds from various sources on a stand-alone basis by virtue of our good credit rating and credit profile. As of 31 October 2019, we had RMB15,197.5 million of unutilised loan facilities, all of which were granted by Independent Third Parties without any guarantee by Taizhou SCOG and its close associates.

As of the Latest Practicable Date, save as the CDB Loan disclosed above, there were no outstanding guarantees or loans provided by Taizhou SCOG to us. Based on all of the above, our Directors are of the view that we are capable of carrying on our business independently of, and will not place any undue reliance on, Taizhou SCOG and its close associates.

CORPORATE GOVERNANCE MEASURES

In order to properly manage any potential or actual conflict of interests between us and Taizhou SCOG and its close associates, we have adopted the following corporate governance measures:

(i) our Directors shall comply with the Articles of Association which require our interested Director(s) not to vote (nor be counted in the quorum) on any resolutions of our Board approving any contracts or arrangements or other proposals in which he/she or any of his/her close associates is materially interested;

(ii) our Company has appointed Sinolink Securities (Hong Kong) Company Limited as the compliance adviser who shall provide us with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws; and

(iii) any transaction (if any) between (or proposed to be entered into between) our Group and our connected persons will be required to comply with the relevant provisions under Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting, annual review and independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between Taizhou SCOG (including its close associates and/or companies controlled by it), and executive Directors and our Group, and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (but not taking into account any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), the following persons will have interests or short positions in our Shares or our 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 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 our Company or any other member of our Group:

Shareholder	Class of Shares	Nature of interest	Number of Shares held as of the Latest Practicable Date	Approximate percentage of shareholding in the total share capital of our Company as of the Latest Practicable Date[1]	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering[2]	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering[3]
Taizhou SCOG[4]	Domestic Shares	Interest of controlled corporations	43,250,855	28.83%	43,250,855	28.83%	21.63%
Taizhou Urban Construction[4]	Domestic Shares	Beneficial owner	43,250,855	28.83%	43,250,855	28.83%	21.63%
Huangyan Finance Bureau[5]	Domestic Shares	Interest of controlled corporations	26,679,541	17.79%	26,679,541	17.79%	13.34%
Huangyan SAOG[5]	Domestic Shares	Interest of controlled corporations	26,679,541	17.79%	26,679,541	17.79%	13.34%
Zhejiang Huangyan Financial Development[5]	Domestic Shares	Beneficial owner	26,679,541	17.79%	26,679,541	17.79%	13.34%
Jiaojiang Finance Bureau[6]	Domestic Shares	Interest of controlled corporations	22,222,893	14.82%	22,222,893	14.82%	11.11%
Taizhou Jiaojiang Infrastructure[6]	Domestic Shares	Beneficial owner	22,222,893	14.82%	22,222,893	14.82%	11.11%
Zhejiang International Business Group Co., Ltd.[7]	Domestic Shares	Interest of controlled corporations	20,116,677	13.41%	20,116,677	13.41%	10.06%
Zheshang Asset Management[7]	Domestic Shares	Interest of controlled corporations	20,116,677	13.41%	20,116,677	13.41%	10.06%

Shareholder	Class of Shares	Nature of interest	Number of Shares held as of the Latest Practicable Date	Approximate percentage of shareholding in the total share capital of our Company as of the Latest Practicable Date[1]	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering[2]	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering[3]
Taizhou SAIG[7]	Domestic Shares	Interest of controlled corporations	20,116,677	13.41%	20,116,677	13.41%	10.06%
Zhejiang Taixin[7]	Domestic Shares	Beneficial owner	20,116,677	13.41%	20,116,677	13.41%	10.06%
Taizhou Luqiao Public Assets	Domestic Shares	Beneficial owner	17,613,358	11.74%	17,613,358	11.74%	8.80%

Notes:

(1) The calculation is based on the total number of 150,000,000 Shares in issue as of the Latest Practicable Date.

(2) The calculation is based on the total number of 150,000,000 Domestic Shares in issue immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

(3) The calculation is based on the total number of 150,000,000 Domestic Shares and the total number of 50,000,000 H Shares (i.e. a total of 200,000,000 Shares) in issue immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

(4) Please see the shareholding structure of our Company in "History and corporate structure — Shareholding and corporate structure — Our shareholding structure immediately following the completion of the Global Offering" in this prospectus. By virtue of the SFO, Taizhou SCOG is deemed to have an interest in the Shares held by Taizhou Urban Construction.

(5) Zhejiang Huangyan Financial Development is a state-owned enterprise indirectly wholly-owned by Huangyan Finance Bureau through its wholly-owned subsidiary, Huangyan SAOG. By virtue of the SFO, each of Huangyan Finance Bureau and Huangyan SAOG is deemed to have an interest in the Shares held by Zhejiang Huangyan Financial Development.

(6) Taizhou Jiaojiang Infrastructure is a state-owned enterprise wholly-owned by Jiaojiang Finance Bureau. By virtue of the SFO, Jiaojiang Finance Bureau is deemed to have an interest in the Shares held by Taizhou Jiaojiang Infrastructure.

(7) Please see the shareholding structure of our Company in "History and corporate structure — Shareholding and corporate structure — Our shareholding structure immediately following the completion of the Global Offering" in this prospectus. By virtue of the SFO, each of Zhejiang International Business Group Co., Ltd., Zheshang Asset Management and Taizhou SAIG is deemed to have an interest in the Shares held by Zhejiang Taixin.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, 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, who will 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 other member of our Group.

OUR BOARD

Our Board consists of 15 Directors, among which, two are executive Directors, eight are non-executive Directors and five are independent non-executive Directors. The directors are appointed for a term of three years and are eligible for re-election. Our Board is responsible for and has general power for the management and conduct of our business.

DIRECTORS

The following table sets forth certain information in respect of our Directors as of the Latest Practicable Date:

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Yan Chuanhua (顏傳華)	51	Chairman and executive Director	September 2008	August 2008	Formulating the overall corporate strategies and overseeing the management of business and operation of our Group	None
Mr. Zhang Junzhou (章君周)	56	Vice Chairman, executive Director and general manager	April 2015	December 2014	Formulating the overall corporate strategies and overseeing the management of business and operation of our Group	None
Mr. Wang Haibo (王海波)	56	Non-executive Director	June 2019	June 2019	Provide professional advice and judgment to the Board	None
Mr. Wang Haiping (王海平)	57	Non-executive Director	July 2002	July 2002	Provide professional advice and judgment to the Board	None
Ms. Fang Ya (方亞)	36	Non-executive Director	April 2015	April 2015	Provide professional advice and judgment to the Board	None
Mr. Yu Yangbin (余陽斌)	33	Non-executive Director	January 2019	January 2019	Provide professional advice and judgment to the Board	None
Mr. Ye Jianhua (葉建華)	60	Non-executive Director	March 2003	March 2003	Provide professional advice and judgment to the Board	None
Ms. Huang Yuyan (黃玉燕)	46	Non-executive Director	March 2017	March 2017	Provide professional advice and judgment to the Board	None
Mr. Yang Yide (楊義德)	71	Non-executive Director	March 2011	March 2011	Provide professional advice and judgment to the Board	None

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Guo Dingwen (郭定文)	56	Non-executive Director	October 2018	October 2018	Provide professional advice and judgment to the Board	None
Mr. Zheng Jianzhuang (鄭健壯)	54	Independent Non-executive Director	March 2016	March 2016	Provide objective and independent opinion on matters decided by the Board	None
Ms. Lin Suyan (林素燕)	45	Independent Non-executive Director	May 2018	May 2018	Provide objective and independent opinion on matters decided by the Board	None
Ms. Hou Meiwen (侯美文)	43	Independent Non-executive Director	October 2017	October 2017	Provide objective and independent opinion on matters decided by the Board	None
Mr. Li Wai Chung (李偉忠)	41	Independent Non-executive Director	June 2019	June 2019	Provide objective and independent financial opinion on matters decided by the Board	None
Mr. Wang Yongyue (王永躍)	44	Independent Non-executive Director	May 2018	May 2018	Provide objective and independent opinion on matters decided by the Board	None

Executive Directors

Mr. Yan Chuanhua (顏傳華), aged 51, is the executive Director and Chairman of our Company. He joined our Company in August 2008. Mr. Yan is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group. He also serves as the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Yan has over 29 years of experience in the management, operation and development of water-related business and water conservancy projects. From August 1990 to August 2008, Mr. Yan served at various governmental water conservancy and resources bodies, where he was responsible for construction and management of water conservancy projects. Mr. Yan began his career as an officer of Taizhou Water Resources Bureau (台州市水利局) from August 1990 to October 1996. He then served as a deputy section chief of water conservancy and hydropower construction planning section (tideland reclamation and cultivation section)* (水利水電建設計劃科(海塗圍墾科)) of Taizhou Water Conservancy Electric Power Bureau* (台州市水利電力局) from October 1996 to August 1999. In August 1999, Mr. Yan became the division chief of construction planning (tideland reclamation and cultivation) division* (建設計劃(海塗圍墾)處) of Taizhou Water Conservancy Electric Power Bureau. In December 2000, Mr. Yan became the deputy bureau director of Taizhou Water Conservancy Electric

Power Bureau. From September 2001 to August 2008, Mr. Yan served as the deputy bureau director of Taizhou Water Resources Bureau and was appointed as a member of the leading party members' group of Taizhou Water Resources Bureau. Mr. Yan served as the vice Chairman and general manager of our Company between September 2008 and March 2010, responsible for the management and operation of the Company's business and formulating the Company's management system and policies. Since March 2010, Mr. Yan has been appointed as the Chairman of our Company.

Mr. Yan obtained a bachelor's degree of engineering, majoring in civil and structural engineering from Zhejiang University (浙江大學) in July 1990. He received a master's degree of public administration from Illinois Institute of Technology, the United States in July 2004. Mr. Yan was accredited as a certified senior engineer by the Personnel Department of Zhejiang Province* (浙江省人事廳) in December 2008.

Mr. Zhang Junzhou (章君周), aged 56, is the executive Director, vice Chairman and general manager of our Company. He joined our Company in December 2014. Mr. Zhang is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group. He also serves as the chairman and general manager of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Zhang has over 26 years of experience in corporate and business management. From August 1980 to August 1983 and from August 1985 to August 1987, Mr. Zhang worked as a mathematics teacher of Linhai City Baishuiyang Middle School* (臨海市白水洋中學) (formerly known as Linhai City Shuanggang District Middle School* (臨海市雙港區中學)). He then served as a teacher at Linhai Normal School* (臨海師範學校) from July 1989 to April 1993. Mr. Zhang became the office director of Linhai Normal School in April 1993 and subsequently served as the deputy dean of Linhai Normal School from March 1997 to October 2000. From November 2000 to September 2002, Mr. Zhang worked at Taizhou College* (台州學院). Mr. Zhang then served as a member of the leading party members' group of Taizhou Culture and Sports Bureau* (台州市文化體育局) from September 2002 to April 2004. Mr. Zhang has also served as the deputy general director of the Taizhou teachers schools relocation leading group construction headquarter* (台州師專搬遷領導小組工程建設指揮部) in June 1998; and the executive deputy general director of the Taizhou sports center construction leading group construction headquarter* (台州市體育中心工程建設領導小組建設指揮部) in October 1999, where he was responsible for management of construction projects. Later from April 2004 to June 2014, Mr. Zhang served as a deputy general manager of Taizhou Social Development Investment Company Limited and was responsible for the company's operation and management of construction projects. From June 2014 to December 2014, Mr. Zhang worked as the associate consultant of Taizhou People's Government Office. Mr. Zhang joined our Company in December 2014, and was subsequently appointed as our Director, vice Chairman and general manager in April 2015.

Mr. Zhang graduated from Zhejiang Education College* (浙江教育學院) (currently known as Zhejiang International Studies University (浙江外國語學院)) in June 1989, majoring in education management. He completed the master's course at Zhejiang Normal University (浙江師範大學) in February 2001, majoring in educational economy and management. Mr. Zhang was qualified to lecture at secondary professional schools in November 1993.

Non-executive Directors

Mr. Wang Haibo (王海波), aged 56, is the non-executive Director of our Company. He joined our Company as a Director in June 2019. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Wang has over 30 years of experience in corporate management. From August 1984 to July 1989, Mr. Wang served as a teacher in Zhejiang Dianda Yuhuan Workstation* (浙江廣播電視大學玉環工作站) (currently known as the Yuhuan College, Zhejiang Open University* (浙江廣播電視大學玉環學院)). From August 1989 to March 1999, he served as the officer of the adult education department and subsequently the officer, the section chief of the human resources department and the member of leading party member's group of Yuhuan County Education Commission* (玉環縣教委). Mr. Wang has held various positions at Taizhou Urban Construction since June 1999, including: (i) deputy office director from June 1999 to August 2001; (ii) office director from August 2001 to August 2003; (iii) manager of the project management department from August 2003 to September 2006, responsible for investment management of the company and its affiliates; (iv) member of the leading party members' group and the leader of discipline inspection team from September 2006 to August 2011; (v) deputy general manager and a member of the leading party members' group from August 2011 to April 2019, responsible for management of party affairs, administrative and human resources of the company; and (vi) senior manager since April 2019, responsible for management and coordination of directors and supervisors assigned by the company to its affiliates. Mr. Wang served as the supervisor of Taizhou Water Resources Investment Development Co., Ltd. since January 2017. He served as the director of Zhejiang Taizhou Expressway Group Co., Ltd. since August 2019.

Mr. Wang obtained a bachelor's degree of science, majoring in physics, from Zhejiang Normal University (浙江師範大學) in July 1984.

Mr. Wang Haiping (王海平), aged 57, is the non-executive Director of our Company. He joined our Company as a Director in July 2002. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Wang has over 38 years of experience in finance and business management. From August 1981 to September 2001, Mr. Wang held various positions in Zhejiang Vacuum Equipment Group Co., Ltd. (浙江真空設備集團有限公司), including: (i) accounting staff and subsequently an accounting manager from August 1981 to April 1992; (ii) deputy section chief of finance section from April 1992 to June 1994; (iii) head of finance department from June 1994 to August 1997; (iv) assistant general manager, head of finance department and subsequently the senior accountant from August 1997 to September 2001. Mr. Wang joined Taizhou Urban Construction as a deputy general manager of the planning and finance department in September 2001, and subsequently served as: (i) planning and finance department manager between August 2003 and August 2013; and (ii) the chief accountant since September 2013.

Mr. Wang completed a distance-learning diploma course, majoring in public administration, at Zhejiang University in June 2004. He also completed the master's course at the Graduate School of Academy of Fiscal Sciences, Ministry of Finance* (財政部財政科學研究所研究生部) in January 2014. Mr. Wang was accredited as a senior accountant by Taizhou Finance Bureau* (台州市財政局) and Taizhou Personnel Bureau* (台州市人事局) in October 1999. He obtained the Certificate of Qualification for CFO Enterprise Management Post of PRC in January 2008.

Ms. Fang Ya (方亞), aged 36, is the non-executive Director of our Company. She joined our Company as a Director in April 2015. Ms. Fang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Fang has over 11 years of experience in community works management and coordination. Ms. Fang was employed by Taizhou Yadong Cement Manufacturing Co., Ltd.* (台州市亞東水泥製造有限公司) (currently known as Taizhou Shangfeng Cement Co., Ltd.* (台州上峰水泥有限公司)) from April 2008 to June 2011 and was responsible for office administrative works. During the period from July 2011 to November 2012, Ms. Fang was appointed as a village official of Zhangan Street Office* (章安街道辦事處) and was responsible for assisting the village secretary in handling day-to-day works. Since December 2012, Ms. Fang has been an officer at Huangyan District Budgeting Center* (黃岩區財政預算編制中心) and is responsible for handling day-to-day works of the economic development section.

Ms. Fang obtained a bachelor's degree of management, majoring in engineering management, from Northeast Agricultural University (東北農業大學) in June 2007. She was qualified as a social worker in the PRC in June 2018.

Mr. Yu Yangbin (余陽斌), aged 33, is the non-executive Director of our Company. He joined our Company as a Director in January 2019. Mr. Yu is primarily responsible for providing professional advice and judgment to the Board.

Mr. Yu worked as a teacher at Linhai Senior Vocational Middle School* (臨海市高級職業中學) from August 2009 to August 2017. Since September 2017, Mr. Yu has been an officer at the economy development section of Jiaojiang Finance Bureau, responsible for management of infrastructure investment and land transfer payment settlement works.

Mr. Yu obtained a bachelor's degree of engineering, majoring in civil engineering, from Zhejiang Sci-tech University (浙江理工大學) in June 2009. He received the secondary school teaching qualification, the secondary architect qualification and the intermediate architectural economist qualification in the PRC in October 2011, November 2013 and November 2018, respectively.

Mr. Ye Jianhua (葉建華), aged 60, is the non-executive Director of our Company. He joined our Company as a Director in March 2003. Mr. Ye is primarily responsible for providing professional advice and judgment to the Board.

Mr. Ye has over 39 years of experience in financial management. He worked at Taizhou Regional Commercial Bureau* (台州地區商業局) (currently known as Taizhou Commercial Bureau*（台州市商務局）) from August 1980 to May 1985. He then served as the deputy

bureau director of Taizhou Regional Price Bureau* (台州地區物價局) of Taizhou DRC from June 1985 to March 1994. Since March 1994, Mr. Ye worked as the director and general manager of Zhejiang Taixin and its predecessor company, responsible for the company's overall operation and management.

Mr. Ye graduated from the Adult Education Academy of Party School of the Central Committee of C.P.C* (中共中央黨校成人教育學院) in July 2002, majoring in economics.

Ms. Huang Yuyan (黃玉燕), aged 46, is the non-executive Director of our Company. She joined our Company as a Director in March 2017. Ms. Huang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Huang has over 28 years of experience in financial management. She served as an officer at Taizhou Luqiao District Market Supervision Administrative Bureau* (台州市路橋區市場監督管理局) from August 1991 to July 2016. Since July 2016, Ms. Huang has been the deputy general manager of Taizhou Luqiao Public Assets and is responsible for financial management.

Ms. Huang graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) in December 1998, majoring in economics. She was accredited as a senior accountant by the Human Resources and Social Security Department of Zhejiang Province* (浙江省人力資源和社會保障廳) in April 2010.

Mr. Yang Yide (楊義德), aged 71, is the non-executive Director of our Company. He joined our Company as a Director in March 2011. Mr. Yang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Yang has over 22 years of experience in corporate governance. He served as the legal representative of (i) Wenling Zhijiang Property Management Co., Ltd.* (溫嶺市之江物業管理有限公司) from May 1997 to May 1999; (ii) Wenling Culture Development Co., Ltd.* (溫嶺市文化發展有限公司) from October 1997 to February 2004; (iii) Yunnan Tianyuan Mining Co., Ltd.* (雲南天源礦業有限公司) from August 2006 to March 2010; and (iv) Wenling Zhijiang Boutique Commercial Building Co., Ltd.* (溫嶺市之江精品商廈有限公司) from May 1999 to July 2002.

Mr. Yang has also served as director of other companies, including: (i) chairman of the board of directors of Kunming Zhijiang Real Estate Co., Ltd.* (昆明市之江置業有限公司) from June 2003 to October 2009; (ii) executive director and general manager of Qufeng Holdings since August 2010; and (iii) director of Taizhou Development from August 2017 to September 2018.

Mr. Yang served as a supervisor of (i) Kunming Chenzhan Trading Co., Ltd.* (昆明晨展商貿有限公司) from September 2011 to March 2017; (ii) Wenling Xinzhan Investment Consulting Co., Ltd.* (溫嶺市新展投資諮詢有限公司) since November 2011; and (iii) Wenling Chenhang Investment Consulting Co., Ltd.* (溫嶺市晨航投資諮詢有限公司) since November 2011.

Mr. Guo Dingwen (郭定文), aged 56, is the non-executive Director of our Company. He joined our Company as a Director in October 2018. Mr. Guo is primarily responsible for providing professional advice and judgment to the Board.

Mr. Guo has over 15 years of experience in financial management. He was appointed as the director and deputy general manager (finance department) of Kunming Zhijiang Real Estate Co., Ltd. from November 2004 to April 2018, responsible for finance management of the department. Since May 2018, he has been a director of Kunming Zhijiang Real Estate Co., Ltd..

Mr. Guo graduated from Hubei Engineering College* (湖北工學院) (currently known as Hubei University of Technology (湖北工業大學)) in July 2003, majoring in economics and management. He was accredited as an accountant by the MOF in October 1994.

Independent non-executive Directors

Mr. Zheng Jianzhuang (鄭健壯), aged 54, is an independent non-executive Director of our Company. He was appointed as a Director in March 2016. Mr. Zheng is responsible for providing objective and independent opinion on matters decided by the Board.

From August 1985 to June 2009, Mr. Zheng worked as a teacher at Hangzhou Vocational and Technical College* (杭州職業技術學院). Mr. Zheng has been serving as a teacher and the executive vice-principal of the business school of Zhejiang University City College (浙江大學城市學院) since June 2009 and June 2015, respectively.

Mr. Zheng received a doctor of philosophy degree of administration, majoring in management science and engineering, from Zhejiang University in June 2005. He was accredited as a professor by the Personnel Department of Zhejiang Province in December 2007.

Ms. Lin Suyan (林素燕), aged 45, is an independent non-executive Director of our Company. She was appointed as a Director in May 2018. Ms. Lin is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Lin has been a teacher at Zhejiang University of Technology (浙江工業大學) since April 2003. She was the head of financial management faculty of the School of Economics and Management of Zhejiang University of Technology from December 2013 to January 2016 and has been the executive head of the master of professional accounting (MPACC) project center of Zhejiang University of Technology since April 2018.

Ms. Lin received a doctor of philosophy degree of economics, majoring in international trade, from Zhejiang University of Technology in June 2018. She was appointed as an associate professor by Zhejiang University of Technology in December 2014.

Ms. Hou Meiwen (侯美文), aged 43, is an independent non-executive Director of our Company. She was appointed as a Director in October 2017. Ms. Hou is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Hou has over 19 years of experience and practice in legal and business operations. Ms. Hou worked as a paralegal and lawyer at Zhejiang Sunshine Law Firm* (浙江陽光時代律師事務所) between October 2000 and November 2003. She then became a partner at Zhejiang Saint Joint Law Firm (浙江聖約翰律師事務所) from December 2003 to September 2004. Ms. Hou worked as a lawyer at Grandall Law Firm (Hangzhou) (國浩律師(杭州)事務所) since October 2004 and is currently a partner.

Ms. Hou obtained a bachelor's degree of law from Hangzhou University* (杭州大學) in July 1998.

Mr. Wang Yongyue (王永躍), aged 44, is an independent non-executive Director of our Company. He was appointed as a Director in May 2018. Mr. Wang is responsible for providing objective and independent opinion on matters decided by the Board.

Mr. Wang has been working as a teacher at Zhejiang Gongshang University (浙江工商大學) since May 2007.

Mr. Wang received a doctor of philosophy degree in education, majoring in psychology, from Zhejiang University in June 2005. He was appointed by Zhejiang Gongshang University as a professor in December 2016.

Mr. Li Wai Chung (李偉忠), aged 41, is an independent non-executive Director of our Company. He was appointed as a Director in June 2019. Mr. Li is responsible for providing objective and independent financial opinion on matters decided by the Board. Mr. Li is the Director who has the appropriate professional qualifications and related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules.

Mr. Li has extensive experience in accounting, corporate finance and finance management. Mr. Li was an audit manager of Deloitte China (including Deloitte Touche Tohmatsu CPA and Hong Kong Deloitte Touche Tohmatsu) from October 2005 to April 2006. From April 2006 to July 2016, he served as the vice president, secretary of the board, assistant president, company secretary and qualified accountant of Shanghai Prime Machinery Company Limited (上海集優機械股份有限公司), a company listed on the Stock Exchange (stock code: 2345). From August 2016 to September 2017, Mr. Li served as the general manager of investment department of Lens International (HK) Limited. From October 2017 to October 2018, Mr. Li worked at Shanghai Yongxuan Venture Capital Management Co., Ltd.* (上海永宣創業投資管理有限公司). He also served as the general manager of Shenzhen Youxin Consulting Management Co., Ltd.* (深圳友信顧問管理有限公司) since October 2017.

Mr. Li obtained a bachelor's degree of business administration, majoring in accounting and finance, from the University of Hong Kong in November 2000. He received a master's degree of business administration from the University of Hong Kong in November 2013. Mr. Li is a practicing member and a fellow of the Association of Chartered Certified Accountants. He used to be a member of the Hong Kong Institute of Certified Public Accountant. He also obtained the chartered accountant qualification from the Institute of Chartered Accountants in England and Wales.

Save as disclosed above, each of our Directors has confirmed that he or she has not held any other directorships in listed companies during the three years immediately prior to the date of this prospectus and that there is no other information in respect of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention to our Shareholders.

SUPERVISORY COMMITTEE

Both the PRC Company Law and the Articles of Association stipulate that joint stock companies with limited liability shall establish a supervisory committee. Our Supervisory Committee consists of five Supervisors, two of whom are employee representative Supervisors. The functions and duties of the Supervisory Committee include but not limited to inspecting the Company's financial condition, supervising the performance of the corporate duties of the Directors and senior management and proposing the dismissal of the Directors and senior management who are in breach of laws and regulations, the Articles of Association or the resolutions of the general meeting, requiring Directors, the manager and other senior management to rectify any actions which impair the interests of our Company, proposing to convene the general meetings, convening and presiding over the Shareholders' general meeting in the event that the Board fails to perform its duties to convene and preside over the Shareholders' general meetings, putting forward proposals to the Shareholders' general meetings and reviewing the financial documents formulated by the Board.

All resolutions of the Supervisory Committee shall be effective subject to the affirmative votes from at least two-thirds of the Supervisors.

SUPERVISORS

The following table presents certain information in respect of the Supervisors as of the Latest Practicable Date:

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and responsibilities	Relationship with other Directors, Supervisors and Senior management
Ms. Lin Ying (林穎)	41	Chairman of Supervisory Committee and external Supervisor	October 2018	October 2018	Supervise the Board and senior management	None
Mr. Lu Huaping (盧華平)	35	External Supervisor	July 2017	July 2017	Supervise the Board and senior management	None
Mr. Yu Changcheng (於倡鋮)	32	External Supervisor	July 2017	July 2017	Supervise the Board and senior management	None
Mr. Chen Guojun (陳國軍)	55	Employee representative Supervisor	June 1999	July 1997	Supervise the Board and senior management	None
Mr. Zheng Jing (鄭晶)	59	Employee representative Supervisor	March 2018	August 1999	Supervise the Board and senior management	None

Ms. Lin Ying (林穎), aged 41, joined our Company as an external Supervisor and the chairman of Supervisory Committee in October 2018. Ms. Lin is responsible for supervising the Board and senior management.

Ms. Lin worked at the finance department of Zhejiang Jimin Pharmaceutical Co., Ltd.* (浙江濟民製藥股份有限公司) from January 1998 to March 2006, and subsequently served as the chief financial officer of Zhejiang Fengli Intelligent Technology Co., Ltd.* (浙江豐立智能科技股份有限公司) from April 2006 to December 2009. She then served as the chief financial officer of Taizhou Luqiao Public Assets from January 2010 to July 2016, and subsequently the head of planning and finance department of Taizhou Rail Transit Group Co., Ltd.* (台州市軌道交通集團有限公司) from August 2016 to September 2018. Since October 2018, Ms. Lin has been the chairman of the supervisory committee of Taizhou SCOG.

Ms. Lin obtained a distance-learning diploma, majoring in business management, from Zhejiang University in February 2010. She was accredited as a registered tax agent and a senior accountant by the Human Resources and Social Security Department of Zhejiang Province in June 2012 and April 2016, respectively. She was admitted as a senior international finance manager by the International Financial Management Association in April 2015.

Mr. Lu Huaping (盧華平), aged 35, joined our Company as an external Supervisor in July 2017. Mr. Lu is responsible for supervising the Board and senior management.

Mr. Lu worked in the personal insurance sales department of China Life Insurance Company Ltd., Taizhou Branch, from July 2008 to February 2011. He then worked at the interactive business department of China Life Property & Casualty Insurance Company Limited, Taizhou Centre Branch, from February 2011 to November 2013, responsible for insurance sales and management. He was employed by the investment department of Taizhou SAIG from November 2013 to May 2017. Since May 2017, Mr. Lu has been an expatriate supervisor of Taizhou SCOG.

Mr. Lu obtained a bachelor's degree of administration, majoring in financial management, from Chongqing Engineering College* (重慶工學院) (currently known as Chongqing University of Technology (重慶理工大學)) in June 2008. He was accredited as a certified intermediate economist and a certified intermediate accountant by the Human Resources and Social Security Department of Taizhou in November 2013 and September 2016, respectively. He also obtained the independent director qualification certificate issued by the Shanghai Stock Exchange in January 2018. Mr. Lu was also accredited as a tax advisor by the China Certified Tax Agents Association in November 2018.

Mr. Yu Changcheng (於倡鋮), aged 32, joined our Company as an external Supervisor in July 2017. Mr. Yu is responsible for supervising the Board and senior management.

Mr. Yu served as an assistant accountant of Taizhou Xinzhou Machinery Co., Ltd.* (台州市新洲機械有限公司) from August 2008 to May 2009. From May 2009 to February 2013, Mr. Yu served as a principal accountant of Taizhou Benling Engine Manufacture Industry Co., Ltd.* (台州本菱發動機製造工業有限公司). He then served as a finance manager of Zhejiang Huangyan Fulida Color Printing Co., Ltd.* (浙江黃岩富麗達彩印有限公司) from February 2013 to May 2014. From May 2014 to May 2017, Mr. Yu worked as the accountant of the fund settlement centre of Taizhou Economic Development Zone Finance Bureau* (台州經濟開發區財政局). Since July 2016, he was appointed as a director of Taizhou Economic Development Zone Sunshine Property Management Co., Ltd.* (台州經濟開發區陽光物業管

理有限公司) and is responsible for reviewing the company's business proposals and providing management opinion. He has also been an expatriate supervisor of Taizhou SCOG since May 2017.

Mr. Yu obtained a bachelor's degree of administration, majoring in accounting, from Wuhan Institute of Technology* (武漢科技學院) (currently known as Wuhan Textile University (武漢紡織大學)) in December 2009. Mr. Yu was accredited as an intermediate accountant by the Human Resources and Social Security Department of Taizhou in September 2015 and a tax advisor by the China Certified Tax Agents Association in November 2017. Mr. Yu also obtained the independent director qualification certificate issued by the Shanghai Stock Exchange in June 2018.

Mr. Chen Guojun (陳國軍), aged 55, joined our Company in July 1997 and was appointed as the employee representative Supervisor in June 1999. Mr. Chen is responsible for supervising the Board and senior management.

Mr. Chen joined our Predecessor Company in July 1997 and worked at the infrastructure division till February 1998. From March 1998 to August 1998, he was a manager of the engineering department of water supply building branch office of our Predecessor Company. Upon the establishment of our Company, he has worked as: (i) station master of Huangyan pumping station from September 1998 to January 2001; (ii) manager of Zeguo branch office from February 2001 to January 2003; and (iii) manager of Yuanshui branch office from January 2003 to October 2010, responsible for the maintenance and management of pumping stations. Since October 2010, Mr. Chen has served as the chairman and general manager of Wenling Zeguo Water Supply.

Mr. Chen graduated from the Correspondence Academy of Party School of Zhejiang Provincial Committee of C.P.C (中共浙江省委黨校函授學院) in June 2003, majoring in administrative management.

Mr. Zheng Jing (鄭晶), aged 59, joined our Company in August 1999 and was appointed as the employee representative Supervisor in March 2018. Mr. Zheng is responsible for supervising the Board and senior management. He is also the chairman of the supervisory committee of Taizhou City Water and Wenling Zeguo Water Supply, and a supervisor of Binhai Water.

From March 1980 to September 1999, Mr. Zheng worked at Zhejiang Huangyan Water Supply, responsible for project management. Mr. Zheng joined our Company in August 1999 and has served as (i) manager of corporate governance department of the Company from August 1999 to January 2003; (ii) office director of Taizhou Water Supply System (Phase II) Engineering Office* (台州二期水工程辦公室) since April 2002; (iii) office director of Zhuxi Reservoir Engineering Office* (朱溪水庫工程辦公室) from February 2009 to May 2015; (iv) chief engineer of Binhai Water since May 2016; and (v) chief engineer of Taizhou South Bay Water Supply since March 2018.

Mr. Zheng graduated from Zhejiang University of Technology in July 1996, majoring in water supply and drainage. He was accredited as an engineer by Taizhou Personnel Bureau in December 1998.

SENIOR MANAGEMENT

The following table sets forth certain information in respect of our senior management team as of the Latest Practicable Date:

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and responsibilities
Mr. Pan Gang (潘剛)	48	Deputy general manager	March 2011	February 1994	Management of water supply business and labour union of our Group
Mr. Pan Huadong (潘華東)	43	Deputy general manager	June 2016	April 2016	Project coordination and publicity of our Group
Mr. Bao Liwan (鮑立萬)	46	Deputy general manager	April 2017	August 1996	Management of water supply business of our Group
Ms. Chen Liying (陳麗英)	41	Chief accountant, secretary of the Board and company secretary	April 2018	August 2001	Financial and budget management of our Group
Mr. Xu Hailong (徐海龍)	49	Deputy general manager	May 2019	February 2019	Management of water conservancy construction projects of our Group

Mr. Pan Gang (潘剛), aged 48, is the deputy general manager of our Company. He joined our Predecessor Company in February 1994 and is primarily responsible for the management of water supply business and labour union of our Group. He also serves as the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Pan has over 25 years of experience in the operation of water-related business. From February 1994 to April 1996, Mr. Pan worked at the engineering technology department of the Huangjiaowen Joint Water Supply Engineering Headquarter* (黃椒溫聯合供水工程總指揮部) of our Predecessor Company. From April 1996 to February 2001, he first served as the director of the pumping station management center of our Predecessor Company and subsequently became the director of the control office of our Company in August 1999. From February 2001 to September 2010, Mr. Pan served as the manager of the corporate management department of our Company. From October 2005 to December 2008, he was responsible for the on-site management of the tap water section of the Taizhou Water Supply System (Phase II), and the trial operation management of Taizhou Water Treatment Plant. Mr. Pan became the deputy general manager of our Company in March 2011.

Mr. Pan graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C in December 1999, majoring in business administration. Mr. Pan was accredited as an engineer by Taizhou Personnel Bureau in December 1999.

Mr. Pan Huadong (潘華東), aged 43, is the deputy general manager of our Company. He joined our Company in April 2016 and is primarily responsible for project coordination and publicity of our Group.

Mr. Pan has over 23 years of experience in corporate governance. Mr. Pan served as the office secretary of the party committee, the deputy secretary and the secretary of the youth league committee of Yuanqiao Town, Huangyan District, Taizhou* (台州市黃岩區院橋鎮) from October 1996 to December 2001. From December 2001 to August 2008, Mr. Pan served as the member of party committee, the deputy secretary of the party committee and the commissioner for discipline inspection committee of Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮). From August 2008 to September 2011, he served as the township chief of People's Government of Yutou Township, Huangyan District, Taizhou* (台州市黃岩區嶼頭鄉人民政府). He then served as the town mayor of Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮) from September 2011 to November 2014. From November 2014 to June 2016, he was the party secretary and bureau director of Taizhou Administration Administrative Law Enforcement Bureau, Huangyan Branch* (台州市城市管理行政執法局黃岩分局). Since June 2016, he has been the deputy general manager of our Company. Since September 2018, Mr. Pan has been the chairman of Taizhou Environmental Development. He also serves as a director of Binhai Water.

Mr. Pan Huadong graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C in December 2004, majoring in administrative management.

Mr. Bao Liwan (鮑立萬), aged 46, is the deputy general manager of the Company. He joined our Group in August 1996 and is primarily responsible for the management of water supply business of our Group.

Mr. Bao has over 23 years of experience in corporate governance. Mr. Bao joined our Predecessor Company in August 1996 and served at the production technology department till August 1999. He has held various positions at our Company, including: (i) director of the information processing center from August 1999 to February 2001; (ii) director of the information processing center of the corporate governance department from February 2001 to January 2003; and (iii) the chief engineer from January 2003 to July 2011. Since July 2011, Mr. Bao has been the chairman of the board of directors and the general manager of Taizhou City Water. Since April 2017, Mr. Bao has been the deputy general manager of our Company. Currently, he is also the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Bao obtained a bachelor's degree of engineering, majoring in industrial automation education, from Zhejiang University of Technology in July 1996. He was accredited as a certified senior engineer by the Personnel Department of Zhejiang Province in December 2008.

Ms. Chen Liying (陳麗英), aged 41, is the chief accountant, secretary of the Board and company secretary of the Company. She joined our Company in August 2001. Ms. Chen is primarily responsible for the financial and budget management of our Group.

Ms. Chen has over 19 years of experience in finance and accounting. Prior to joining the Company, she worked as an accountant at the finance department of Star Group Co., Ltd.* (星星集團有限公司) from July 2000 to July 2001. Ms. Chen joined our Company in August 2001 and worked in the finance department. She later became the manager of the planning and finance department in January 2003, and the deputy chief accountant and manager of the planning and finance department in May 2015. Since April 2018, Ms. Chen has been the chief accountant of our Company. Currently, she is also the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Ms. Chen obtained a bachelor's degree of administration, majoring in financial accounting, from Shijiazhuang Railway Institute* (石家莊鐵道學院) in June 2000. She received a master's degree of accounting from Shanghai University of Finance and Economics (上海財經大學) and Shanghai National Accounting Institute (上海國家會計學院) in June 2014. She was accredited as a senior accountant by the Human Resources and Social Security Department of Zhejiang Province in April 2011.

Mr. Xu Hailong (徐海龍), aged 49, is the deputy general manager of our Company. He joined our Company in February 2019. Mr. Xu is primarily responsible for the management of water conservancy construction projects of our Group.

Mr. Xu has over 26 years of experience in corporate and business managements. He worked at Tiantai County Employment Management Service Division* (天台縣就業管理服務處) from August 1993 to October 1997. Mr. Xu served as assistant to the mayor and subsequently the deputy mayor of the People's Government of Baita Town, Xianju County* (仙居縣白塔鎮人民政府) from October 1997 to November 2001, and the mayor of the People's Government of Guanlu Town, Xianju County* (仙居縣官路鎮人民政府) from November 2001 to July 2004. Mr. Xu was appointed by the Party Group of the Communist Party of China of Water Resources Bureau of Taizhou City* (中國共產黨台州市水利局黨組) as the political commissar of Taizhou Water Administration Supervision Team* (台州市水政監察支隊) and the head of Water Affairs and Water Resources Division of Taizhou Water Resources Bureau* (台州市水利局水政水資源處) from March 2004 to January 2005. From January 2005 to April 2017, he served as the division director at Taizhou River Management Division* (台州市河道管理處) and office deputy director at Taizhou People's Government Flood Control and Drought Control Headquarter* (台州市人民政府防汛防旱指揮部). From April 2017 to March 2019, Mr. Xu served as the deputy general manager of Taizhou Urban Construction. From February 2019 to June 2019, Mr. Xu served as the Director of our Company. He has been the deputy general manager of our Company since May 2019.

Mr. Xu obtained a bachelor's degree of agriculture, majoring in plants protection, from Zhejiang Agricultural University* (浙江農業大學) (currently known as the College of Agriculture and Biotechnology, Zhejiang University* (浙江大學農業與生物技術學院)) in July 1993.

JOINT COMPANY SECRETARIES

Ms. Chen Liying (陳麗英) was appointed as one of our joint company secretaries on 17 May 2019. For the biography details of Ms. Chen, please refer to the paragraph headed "Senior management" above.

Ms. Siu Pui Wah (蕭佩華), aged 46, was appointed as one of our joint company secretaries on 5 June 2019. Ms. Siu is a director and head of accounting and corporate services of Trident Corporate Services (Asia) Limited. She has been working in Trident Corporate Services (Asia) Limited for over 19 years and possesses experiences in providing accounting, taxation and corporate secretarial services to listed companies as well as multinational, private and offshore companies.

Ms. Siu obtained Honours Diploma in Accountancy from the Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) in July 1997. Ms. Siu is a certified public accountant and has been a member of the Hong Kong Institute of Certified Public Accountants since March 2003.

CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance to safeguard the interests of our Shareholders. To accomplish this, we will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing.

BOARD COMMITTEES

Various committees have been established under the Board in accordance with the relevant regulations of the PRC and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Company has established four Board committees, including the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy Committee.

Audit Committee

An audit committee was established by our Company pursuant to a resolution of the Board on 8 November 2019 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of the audit committee are Mr. Li Wai Chung, Ms. Hou Meiwen and Mr. Wang Haiping. Mr. Li Wai Chung and Ms. Hou Meiwen are independent non-executive Directors and Mr. Wang Haiping is a non-executive Director. Mr. Li Wai Chung is the chairman of the audit committee. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system.

Nomination Committee

A nomination committee was established by our Company pursuant to a resolution of the Board on 8 November 2019 with written terms of reference. The members of the nomination committee are Mr. Yan Chuanhua, Mr. Zheng Jianzhuang, Ms. Lin Suyan, Ms. Hou Meiwen, Mr. Wang Yongyue, Mr. Yu Yangbin and Mr. Yang Yide. Mr. Yan Chuanhua is the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to the Board on appointment of Directors and the management of the Board succession.

Our nomination committee also reviews our board diversity policy (the "**Board Diversity Policy**"), which sets out the objective and approach to achieve and maintain diversity on our Board from time to time to ensure its continued effectiveness. We will ensure that the members of our Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support our Group's business strategy. Pursuant to the Board Diversity Policy, we seek to achieve Board diversity through consideration of various

factors such as professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our implementation of the Board Diversity Policy will be disclosed in our corporate governance report on an annual basis.

Remuneration Committee

A remuneration committee was established by our Company pursuant to a resolution of the Board on 8 November 2019 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of the remuneration committee are Mr. Wang Yongyue, Mr. Yan Chuanhua, Mr. Zhang Junzhou, Ms. Lin Suyan and Mr. Zheng Jianzhuang. Mr. Wang Yongyue is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group.

Strategy Committee

A strategy committee was established by our Company pursuant to a resolution of the Board on 8 November 2019 with written terms of reference. The members of the strategy committee are Mr. Yan Chuanhua, Mr. Zhang Junzhou, Mr. Zheng Jianzhuang, Ms. Fang Ya, Mr. Ye Jianhua, Mr. Wang Haibo and Ms. Huang Yuyan. Mr. Yan Chuanhua is the chairman of the strategy committee. The primary duties of the strategy committee are to make recommendations to the Board on the long-term development strategies and major investment decisions of our Group.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the total remuneration paid to our Directors (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) were RMB1,218,000, RMB1,294,000, RMB1,125,000 and RMB726,000, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the total remuneration paid to our Supervisors (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) were RMB729,000, RMB751,000, RMB927,000 and RMB424,000, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind received by the five highest-paid individuals were RMB2,777,000, RMB2,509,000, RMB2,055,000 and RMB1,190,000, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company, or as a service pay for compensation. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, no remuneration was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of the Company. In addition, none of our Directors or Supervisors waived any remuneration for the said period.

Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Under the arrangement currently in force, we estimate that the total remuneration (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) payable to the Directors and Supervisors for the year ending 31 December 2019 will be approximately RMB1,365,000 and RMB838,000, respectively.

COMPLIANCE ADVISER

We have appointed Sinolink Securities (Hong Kong) Company Limited as our compliance adviser pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction within the meaning of the Listing Rules, is contemplated under the Listing Rules, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other issues pursuant to Rule 13.10 of the Listing Rules.

In accordance with Rule 19A.06 of the Listing Rules, our compliance adviser shall timely inform us of any amendment or supplement made to the Listing Rules published by the Stock Exchange.

The appointment shall commence from the date of listing shall end on the day on which the annual report regarding our financial performance for the first complete financial year after the relevant date of listing is distributed.

THE COMMUNIST PARTY COMMITTEE

In accordance to the Constitution of the Communist Party of China (中國共產黨章程), we have established the Committee of the Communist Party of the Company (the "**Communist Party Committee**"). Our Communist Party Committee consists of seven members. The following table sets out certain information of the members of our Communist Party Committee as of the Latest Practicable Date:

Name	Position in our Company
Mr. Yan Chuanhua (顏傳華)	Chairman and executive Director
Mr. Zhang Junzhou (章君周)	Vice Chairman, executive Director and general manager
Mr. Pan Gang（潘剛）	Deputy general manager
Mr. Pan Huadong (潘華東)	Deputy general manager
Mr. Bao Liwan (鮑立萬)	Deputy general manager
Ms. Chen Liying (陳麗英)	Chief accountant, secretary of the Board and company secretary
Mr. Xu Hailong (徐海龍)	Deputy general manager

All of the members of the Communist Party Committee are our executive Directors or senior management. Please refer to "Executive Directors" and "Senior management" of this section for details of their biographies.

The main functions of the Communist Party Committee are to: (i) as a leadership role direct, monitor, implement and discuss key matters of the enterprise according to the relevant regulations; (ii) ensure the implementation of the policy of the Communist Party of China (the "**Party**") in the enterprise; (iii) support the shareholders, directors, supervisors and managers in their performance of duties and responsibilities; (iv) support the works of labour union; (v) participate in deciding vital issues; and (vi) enhance the construction of the Party, continuously improve the education of the employees to help them better understand and adhere to the requirements under the spirit of the Party.

The authority of the Communist Party Committee include: (a) as the leader and political core of the enterprise to provide support to the enterprise; (b) ensure the policies of the Party and the government are implemented in the enterprise; (c) arrange the works of the Party within the employees and organisations of the enterprise, enhance self-construction of the Party and study among the leaders and build up a spiritual civilisation in the labour union and youth groups; (d) adhere to the principles of the Party and play the role in setting the standard, conduct inspections and nominate candidates; (e) provide suggestions to matters discussed in board meetings and management meetings; (f) support the works of the labour union; and (g) other matters which are to be determined by the Communist Party Committee.

SHARE CAPITAL

As of the Latest Practicable Date, the registered share capital of the Company was RMB150,000,000, comprising 150,000,000 Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares	150,000,000	75%
H Shares to be issued pursuant to the Global Offering	50,000,000	25%
Total	**200,000,000**	**100%**

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares	150,000,000	72.3%
H Shares to be issued pursuant to the Global Offering	57,500,000	27.7%
Total	**207,500,000**	**100%**

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that: (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of the listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of listing of not less than HK$50.0 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Global Offering becomes unconditional and is completed.

CLASS OF SHARES

Upon the completion of the Global Offering, the Shares will consist of Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of the Company. Apart from certain qualified domestic institutional investors in the PRC and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural PRC persons. Domestic Shares can only be subscribed for by and traded between legal or natural PRC persons, qualified foreign institutional investors and foreign strategic investors.

Domestic Shares and H Shares are regarded as different classes of Shares. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the procedure of transfer of Shares and appointment of dividend receiving agents as contained in the Articles of Association are summarised in "Summary of the Articles of Association" in Appendix V to this prospectus.

Save as described in this prospectus, Domestic Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for dividends or distributions declared, paid or made. All dividends for H Shares will be paid in Hong Kong dollars or in the form of additional H Shares whereas all dividends for Domestic Shares will be paid in Renminbi. However, the transfer of Domestic Shares is subject to such restrictions as the PRC law may impose from time to time.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within six months after the Listing Date. We have not approved any share issue plan other than the Global Offering.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The Company Law provides that in relation to the global offering of a company, the shares issued by a company prior to the global offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

CONVERSION OF DOMESTIC SHARES INTO H SHARES

Conversion of unlisted Shares

Upon Listing, we will have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. According to the stipulations by the State Council's securities regulatory authority, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion

and trading of such converted shares any requisite internal approval processes (but without the necessity of Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "**Arrangement**"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to unlisted Shares. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

If any of our unlisted Shares are to be converted and traded as H Shares on the Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. According to the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies (CSRC [2019] No.22) (《H股公司境內未上市股份申請"全流通"業務指引》(中國證券監督管理委員會公告[2019]22號)), the unlisted shares of H-share companies (including (i) unlisted domestic shares held by domestic shareholders before overseas listing; (ii) unlisted domestic shares issued overseas after overseas listing; and (iii) unlisted shares held by foreign shareholders) are allowed to be listed and traded on the Stock Exchange, and it stipulates the application procedures for the full circulation of unlisted shares of H-share company in China.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion and transfer.

Mechanism and procedure for conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due despatch of H Share certificates; and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders currently proposes to convert any of the unlisted Shares held by it into H Shares.

REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on an overseas stock exchange with the CSDCC within 15 business days upon listing and provide a written report to the CSRC regarding the centralised registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETINGS ARE REQUIRED

For details of circumstances under which the Shareholders' general meeting and class Shareholders' meeting are required, please refer to "Variation of rights of existing Shares or classes of Shares" and "Annual general meetings" under "Summary of the Articles of Association" in Appendix V to this prospectus.

The following discussion and analysis should be read in conjunction with the audited consolidated financial information of our Group and the accompanying notes, included in the accountant's report as set out in Appendix I to this prospectus. The consolidated financial statements of our Group have been prepared in accordance with HKFRSs, which may differ in certain respects from generally accepted accounting principles in certain other countries. Potential investors should read the whole of the accountant's report as set out in Appendix I to this prospectus and should not rely merely on the information contained in this section.

The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk factors" of this prospectus.

OVERVIEW

We are a leading water supply service provider in Taizhou supplying raw water and municipal water. According to the Frost & Sullivan Report, we ranked fifth and first in raw water supply in Zhejiang Province and Taizhou, respectively, and ranked first in municipal water supply in Taizhou in terms of supply capacity in 2018. We also supply tap water directly to end-users and engage in the installation of the water pipelines for distributing tap water to our end-users.

During the Track Record Period, we operated and managed the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), which are two pivotal water supply systems in Taizhou having an aggregate raw water supply capacity of 740,000 tonnes per day and supply raw water and municipal water in the South Area of Taizhou. We have recently commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV). For details, please refer to "Business — Our water supply systems" of this prospectus.

During the Track Record Period, certain of our subsidiaries also engaged in the property development and leasing business, the construction of public works and the landscape businesses. To streamline our Group's structure and focus on our core business of water supply, we by way of demerger and disposal of equity interests ceased to operate the above businesses. For details, please refer to "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital in 2017" and "History and corporate structure — Our corporate development — Disposal of non-core business" of this prospectus.

For the three years ended 31 December 2018 and the six months ended 30 June 2019, our revenue from Continued Operations was RMB410.1 million, RMB462.9 million, RMB504.3 million and RMB225.8 million, respectively, whilst our net profit from Continued Operations was RMB62.0 million, RMB101.7 million, RMB120.3 million and RMB51.9 million, respectively.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, including HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and its Amendments, and HKFRS 16 Leases, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period.

The historical financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. All intra-group transactions and balances have been eliminated on consolidation.

Application of HKFRS 9, HKFRS 15 and HKFRS 16

Effective for annual periods beginning on or after 1 January 2018, HKFRS 9 "Financial Instruments" replaced the previous standard HKAS 39 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" replaced the previous standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts"; and effective for annual periods beginning on or after 1 January 2019, HKFRS 16 "Leases" replaced the previous standards HKAS 17 "Leases" and related interpretations. We have consistently applied HKFRS 9, HKFRS 15 and HKFRS 16 to our consolidated financial statements throughout the Track Record Period and the effects to our Group are as follows:

- Under HKFRS 15, we recognise consideration received from customers, for which we have not yet satisfied the performance obligations as contract liabilities. By applying HKFRS 15, as at 31 December 2016, 2017 and 2018 and 30 June 2019, we reclassified advances from customers of RMB402.8 million, RMB17.0 million, RMB4.1 million and RMB4.8 million from other payables and accruals to contract liabilities, respectively.

- HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). By applying HKFRS 16, as at 31 December 2016, 2017 and 2018 and 30 June 2019, we reclassified prepaid land lease payments of RMB63.8 million, RMB221.8 million, RMB264.0 million and RMB385.5 million to right-of-use assets, respectively, and we reclassified other payables to lessors of nil, RMB1.8 million, RMB19.3 million and RMB5.4 million to lease liabilities, respectively.

Taking into account the impact disclosed above, we consider that the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our financial conditions, results of operations and the period-to-period comparability of our financial results are principally affected by a number of factors including those discussed below.

Unit raw water procurement fee and unit water resources fee for the raw water we draw from Changtan Reservoir and unit selling prices for raw water, municipal water and tap water

We have to pay raw water procurement fee and water resources fee for the raw water we draw from Changtan Reservoir, which are fixed by the local pricing authorities. Similarly, we have limited control over the prices at which we can sell our raw water, municipal water and tap water to our customers as these prices are also fixed by the local pricing authorities. Any change in the unit raw water procurement fee, unit water resources fee and the unit prices at which we sell our raw water, municipal water and tap water will have a direct impact on our gross profit. During the Track Record Period, Taizhou DRC had adjusted the unit raw water procurement fee and unit selling prices of raw water and municipal water for several times, and the People's Government of Wenling City adjusted the unit selling price of our tap water in 2017 and 2019. For details, please refer to "Business — Our water supply services — Pricing" of this prospectus. We cannot assure that the relevant government authorities will upward adjust the raw water procurement fee and water resources fee with a parallel increase in selling price of water we sell to our customers. In such case, we are unable to transfer our increased cost to our customers and our profit will be adversely affected. Further, there is no assurance that the local government authorities will decrease the selling prices of our water for whatever reason. Any change in such pricing policies will affect our revenue, cost of sales, gross profit margin and overall financial performance.

Demand for raw water and municipal water

During the Track Record Period, our results of operations were directly affected by the sales volume of our water supply, which was in turn driven by demand for water supply and subject to the amount of water we are allowed to draw from Changtan Reservoir under the Water Intake Permit. We have not specified the water purchase volume in the water supply agreements we entered into with our customers. The demand for our raw water and municipal water is largely subject to various factors including the volume of rainfall in a particular year, the number of end-user accounts, urbanisation rate and population growth, etc. For instance, our aggregate sales volume of municipal water increased by 16.5% from 115.1 million tonnes in 2016 to 134.1 million tonnes in 2017, partially attributable to the lower rainfall volume recorded in Taizhou in 2017, as the lower rainfall volume led to the decrease in the water stored in their own small-to-medium size reservoirs to be further processed and supplied to their own end-users, and accordingly increased their demand for our municipal water and raw water. Based on the Taizhou Water Resources Bulletin 2017, the average rainfall volume in Taizhou decreased by 22.1% from 1,765.7 mm in 2016 to 1,376.1 mm in 2017. The lower rainfall volume also caused the water volume stored in Changtan Reservoir to decrease by 31.4% from 385.2 million tonnes as of 31 December 2016 to 264.3 million tonnes as of 31 December 2017. However, as the largest reservoir in Taizhou in terms of water storage capacity, the water supply volume of Changtan Reservoir was less responsive to the lower rainfall volume in 2017 compared to the small-to-medium size reservoirs due to its larger storage capacity.

According to the Frost & Sullivan Report, the urbanisation rate of Taizhou is expected to grow from 63.0% in 2018 to 68.0% in 2023. Such continuous growth in urban population will drive the demand for municipal water. In addition, the economic development in Taizhou also affects the demand for raw water and municipal water. Taizhou Bay Economic Zone in the eastern region of Taizhou and South Bay Zone in the southern part of Taizhou are expected to drive further population growth in these regions. In fact, the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) are constructed to supply water in these two areas.

During the three years ended 31 December 2018, the sales volume of our water experienced a steady growth, and then recorded a slight decline during the six months ended 30 June 2019 compared to the same period of 2018. The table below sets forth the sales volume of our water supply for the indicated periods:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	(tonnes'000)	*(tonnes'000)*	*(tonnes'000)*	*(tonnes'000)*	*(tonnes'000)*
Raw water	107,281	110,997	111,936	56,269	54,640
Municipal water	115,119	134,118	139,396	67,491	59,939
Tap water	9,734	10,546	10,824	4,928	4,707
Total	**232,134**	**255,661**	**262,156**	**128,688**	**119,286**

Cost of sales

Our cost of sales primarily included, among others, raw water procurement fee, water resources fee, depreciation expenses and employee benefit expenses. During the Track Record period, our raw water procurement fee and water resources fee accounted for 23.4%, 24.4%, 31.7% and 32.6% and 17.2%, 18.5%, 17.2% and 18.1%, respectively, of the cost of sales. In the event that unit raw water procurement fee or unit water resources fee in Taizhou increases unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability of our Group will be adversely affected.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our profit after tax in relation to percentage changes of the unit raw water procurement fee and unit water resources fee. The sensitivity analysis assumes that the only variable that changes is the total procurement cost of raw water, including raw water procurement fee and water resources fee, while other variables remain unchanged. Based on the fluctuation of unit raw water procurement fee and unit water resources fee generally within the range of ±10% during the Track Record Period, the analysis is intended for reference only, and any variation may differ from the amounts indicated.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
Increase/(decrease) in unit raw water procurement price	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
10%	(4,508)	(4,977)	(7,268)	(3,555)	(3,244)
5%	(2,254)	(2,488)	(3,634)	(1,777)	(1,622)
(5%)	2,254	2,488	3,634	1,777	1,622
(10%)	4,508	4,977	7,268	3,555	3,244

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
Increase/(decrease) in unit water resources fee	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax	Increase/(decrease) in profit after tax
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
10%	(3,319)	(3,784)	(3,952)	(1,933)	(1,804)
5%	(1,659)	(1,892)	(1,976)	(967)	(902)
(5%)	1,659	1,892	1,976	967	902
(10%)	3,319	3,784	3,952	1,933	1,804

Access to capital and cost of financing

Our operations are generally capital-intensive and we require significant capital resources to fund our operations and to construct, maintain and operate our water supply systems. Therefore our financial position and results of operations are affected by our access to capital and cost of financing. As of 31 December 2016, 2017, 2018 and 30 June 2019, our total outstanding interest-bearing bank and other borrowings was RMB1,668.3 million (RMB1,473.3 million was for Continued Operations), RMB1,316.3 million, RMB1,004.8 million and RMB1,300.0 million, respectively. Our effective interest rate for the Continued Operations ranged from 2.8% to 5.4% for the year ended 31 December 2016, and 2.8% to 5.15% for the two years ended 31 December 2018 and the six months ended 30 June 2019. For the Continued Operations, our finance cost was RMB38.3 million, RMB32.5 million, RMB26.6 million and RMB8.7 million, respectively, and our capitalised interest amount was nil, RMB14.5 million, RMB15.9 million and RMB15.6 million, respectively, for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019. During the Track Record Period, our main sources of capital are bank and other borrowings and cash generated from operating activities.

In addition, the estimated total investment cost for our projects under construction, i.e. the Water Supply System (Phase III) and the Water Supply System (Phase IV), is RMB4,359.9 million, and the total costs incurred up to 30 November 2019 was RMB1,439.1 million. We may need more external sources of funding, including bank and other borrowings to fund the construction of these two projects, which will increase our finance costs.

Any change in the interest rate on our borrowings or the amount of our borrowings will affect our interest payments and finance costs and therefore, affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by regulations promulgated from time to time by the PRC Government to limit money supply and availability of credit.

SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which our Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides our Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of water

Revenue from the sale of water is recognised at the point in time when control of the water is transferred to the customer, generally on delivery of the water.

(b) Installation services

Our Group provides installation services that are sold separately to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the industrial products.

Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by our Group. The input method recognises revenue on the basis of the actual cost expended relative to the total expected cost to complete the service.

(c) Sale of properties

Revenue from the sale of properties is recognised at the point in time when control of the properties is transferred to the customer, generally on delivery of the properties.

(d) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because our Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that our Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Our Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which our Group will be entitled.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If our Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which our Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before our Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when our Group performs under the contract.

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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 HKFRS 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, our 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 estimated useful lives of property, plant and equipment are as follows:

Buildings	10–35 years
Pipelines	15–20 years
Machinery and equipment	5–20 years
Computer and office equipment	3–10 years
Motor vehicles	4–6 years
Leasehold improvements	3 years

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 to 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.

Leases

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with our Group's policy for "inventories", "properties under development" and "completed properties held for sale". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless our Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term ranged from 2 years to 50 years. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured in accordance with our Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by our Group and payments of penalties for termination of a lease, if the lease term reflects our Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, our Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Our Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2.55% and 3.47% has been applied to the expenditure on the individual assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth our consolidated statements of profit or loss and other comprehensive income for the three years ended 31 December 2018 and the six months ended 30 June 2018 and 2019, as derived from the accountants' report of our Group set out in Appendix I of this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CONTINUED OPERATIONS					
REVENUE	410,053	462,901	504,263	243,288	225,786
Cost of sales	(270,846)	(277,805)	(306,986)	(149,628)	(135,045)
Gross profit	139,207	185,096	197,277	93,660	90,741
Other income and gains	17,174	21,274	27,370	18,748	7,889
Administrative expenses	(30,235)	(34,979)	(34,672)	(17,930)	(19,121)
Other expenses	(588)	(548)	(2,560)	(2,159)	(427)
Finance costs	(38,258)	(32,484)	(26,628)	(16,696)	(8,719)
PROFIT BEFORE TAX FROM CONTINUED OPERATIONS	87,300	138,359	160,787	75,623	70,363
Income tax expense	(25,270)	(36,690)	(40,537)	(19,034)	(18,474)
PROFIT FOR THE YEAR/PERIOD FROM CONTINUED OPERATIONS	62,030	101,669	120,250	56,589	51,889
DISCONTINUED OPERATIONS					
Profit for the year/period from Discontinued Operations	42,457	123,747	3,248	(829)	–
PROFIT FOR THE YEAR AND OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	104,487	225,416	123,498	55,760	51,889
Attributable to:					
Owners of the parent	82,461	179,997	110,450	49,447	46,340
Non-controlling interests	22,026	45,419	13,048	6,313	5,549
	104,487	225,416	123,498	55,760	51,889

PRINCIPAL COMPONENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE CONTINUED OPERATIONS

Revenue

The table below sets out the breakdown of revenue and percentage of total revenue by product/service categories for the Continued Operations for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
Water supply										
Raw water	98,965	24.1	101,138	21.8	112,415	22.3	56,221	23.1	55,559	24.6
Municipal water	269,394	65.7	314,013	67.8	340,049	67.4	164,730	67.7	146,304	64.8
Tap water	35,609	8.7	41,314	8.9	44,869	8.9	20,456	8.4	19,970	8.8
Installation services	6,085	1.5	6,436	1.5	6,930	1.4	1,881	0.8	3,953	1.8
Total	**410,053**	**100.0**	**462,901**	**100.0**	**504,263**	**100.0**	**243,288**	**100.0**	**225,786**	**100.0**

We derive the majority of our revenue from the sales of raw water and municipal water to municipal water service providers in Taizhou, which accounted for 89.8%, 89.6%, 89.7% and 89.4% of our total revenue for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. We also supply tap water directly to end-users and engage in the installation of the water pipelines for distributing tap water to our end-users, the aggregate revenue generated from which accounted for 10.2%, 10.4% and 10.3% and 10.6% of our total revenue, respectively, for the year ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019. We recognise sales of water at the point of time when control of the water is transferred to the customers, generally on delivery of the water, net of VAT. Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, on the basis of the actual cost expended relative to the total expected cost to complete the service, net of VAT.

The increases of our revenue for the three years ended 31 December 2018 were primarily driven by a general increase in sales volume and unit selling prices of our water. Our revenue decreased for the six months ended 30 June 2019 from the same period of 2018 primarily due to a decrease in sales volume of our water.

The table below sets out the sales volume and the average unit selling price of our water for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	(tonnes'000)	*(RMB)*	*(tonnes'000)*	*(RMB)*	*(tonnes'000)*	*(RMB)*	*(tonnes'000)*	*(RMB)*	*(tonnes'000)*	*(RMB)*
Water supply										
Raw water	107,281	0.92	110,997	0.91	111,936	1.00	56,269	1.00	54,640	1.02
Municipal water	115,119	2.34	134,118	2.34	139,396	2.44	67,491	2.44	59,939	2.44
Tap water	9,734	3.66	10,546	3.92	10,824	4.15	4,928	4.15	4,707	4.24
Total	**232,134**	**1.74**	**255,661**	**1.79**	**262,156**	**1.90**	**128,688**	**1.88**	**119,286**	**1.86**

Sales volume

We recorded an increasing trend in the total sales volume of our water for the three years ended 31 December 2018 primarily due to the continuing increase in demand for municipal water by the end-users as a result of (i) continuing economic development in Taizhou as reflected in its growing nominal GDP; (ii) the urbanisation process of Taizhou; and (iii) the local insufficient water supply in the Wenling City and Yuhuan City resulting in ongoing demand for water. According to the Water Consumption Quota in Zhejiang Province (2015) (浙江省用(取)水定額(2015)), the quota of Zhejiang's urban residential water consumption volume is set between 120 and 180 litre/person per day, while the quota of Zhejiang's rural residential water consumption volume is set between 60 and 180 litre/person per day. According to the Frost & Sullivan Report, the water consumption volume of end-users in the Wenling City was 95.9 litre/person per day, and the water consumption volume of end-users in the Yuhuan City was 87.8 litre/person per day, both in 2018. Our Directors believe that the lower actual water consumption volume is due to the local insufficient water supply in the Wenling City and the Yuhuan City, and therefore offers room for a growth in demand for water.

The raw water we sold during the Track Record Period was mainly supplied to Huangyan District, Jiaojiang District, Luqiao District and Zeguo Town of Wenling City under the Taizhou Water Supply System (Phase I), and with 110,000 tonnes per day as allocated to Huangyan District under the Taizhou Water Supply System (Phase II). Generally, water supply capacity is limited by the infrastructure of the water supply system, such as diameters of the water pipelines and other related hardware facilities. Accordingly, the amount of water we supply is subject to the water supply capacity of the downstream water supply system, which in turn may restrict our sales volume.

The total sales volume of our water significantly increased by 10.2%, or 23.6 million tonnes, from 232.1 million tonnes in 2016 to 255.7 million tones in 2017 primarily due to the lower rainfall volume in Taizhou in 2017. According to Taizhou Water Resources Bulletin 2017, the average rainfall volume in Taizhou decreased by 22.1% from 1,765.7 mm in 2016 to 1,376.1 mm in 2017. The lower rainfall volume leads to the decrease in water stored in the reservoirs, which are small to medium in size, of our customers, and therefore increase their demand for water supply from us.

Accordingly, the lower rainfall volume recorded in Taizhou in 2017 drove the increase in our sales volume of raw water by 3.4%, or 3.7 million tonnes, from 107.3 million tonnes in 2016 to 111.0 million tonnes in 2017, and increase in the sales volume of our municipal water by 16.5%, or 19.0 million tonnes, from 115.1 million tonnes in 2016 to 134.1 million tonnes in 2017.

The total sales volume of our water decreased by 7.3%, or 9.4 million tonnes, from 128.7 million tonnes for the six months ended 30 June 2018 to 119.3 million tonnes for the six months ended 30 June 2019 primarily due to the higher rainfall volume in Taizhou during the six months ended 30 June 2019. According to the Frost & Sullivan Report, the average rainfall volume in Taizhou increased by 42.3% from 648.8 mm for the six months ended 30 June 2018 to 923.2 mm for the same period of 2019. The higher rainfall volume recorded in Taizhou led to the decrease in our sales volume of raw water by 3.0%, or 1.7 million tonnes, from 56.3 million tonnes to 54.6 million tonnes, and decrease in the sales volume of our municipal water by 11.3%, or 7.6 million tonnes, from 67.5 million tonnes to 59.9 million tonnes during the six months ended 30 June 2019.

Selling price

The unit selling prices of our water are fixed and adjusted by the local pricing authorities. The average unit selling prices of our raw water and municipal water remained basically unchanged at RMB0.92 per tonne and RMB2.34 per tonne, respectively, in 2016 and RMB0.91 per tonne and RMB2.34 per tonne, respectively, in 2017. According to the Notice 228, the prices of our raw water and municipal water were adjusted upward by RMB0.1 per tonne started from 1 January 2018, and accordingly the average unit selling prices of our raw water and municipal water increased to RMB1.0 per tonne and RMB2.44 per tonne, respectively, in 2018. The average unit selling price of our raw water increased slightly from RMB1.0 for the six months ended 30 June 2018 to RMB1.02 for the same period of 2019, primarily due to the downward adjustments of VAT rate for our raw water supply business. According to the Circular 32, the VAT rate for our raw water supply business was adjusted to 10% from 11% started from 1 May 2018, and pursuant to the Announcement 39, since 1 April 2019, the VAT rate has been further adjusted to 9%. As our revenue from water supply business is net of VAT, the unit selling price our raw water increased along with the decreases in the VAT rate.

The average unit selling price of our tap water increased from RMB3.66 per tonne in 2016 to RMB3.92 per tonne in 2017, and further increased to RMB4.15 per tonne in 2018 and RMB4.24 per tonne for the six months ended 30 June 2019, primarily driven by the upward adjustment of the price of our tap water in 2017 and 2019, respectively. According to the Notice 1, the price range of our tap water has increased from RMB3.5 to RMB4.8 per tonne to RMB3.9 to RMB7.8 per tonne since 1 July 2017. From 1 January 2019, pursuant to Notice 4, the price range of our tap water has further increased to RMB4.0 to RMB14.1 per tonne.

Cost of sales

Our cost of sales mainly consists of raw water procurement fee, water resources fee, depreciation expenses, employee benefit expenses and electricity cost. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our costs of sales was RMB270.8 million, RMB277.8 million, RMB307.0 million and RMB135.0 million, representing 66.1%, 60.0%, 60.9% and 59.8% of our total revenue for the corresponding periods respectively.

The table below sets out a breakdown of our cost of sales by nature and as a percentage of our total cost of sales for the Continued Operations for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Raw water procurement fee	63,448	23.4	67,729	24.4	97,176	31.7	47,502	31.7	43,989	32.6
Water resources fee	46,707	17.2	51,495	18.5	52,847	17.2	25,835	17.3	24,458	18.1
Depreciation expenses	68,624	25.4	63,030	22.7	64,221	20.9	31,917	21.3	24,650	18.3
Employee benefit expenses	42,060	15.5	41,818	15.1	38,098	12.4	19,456	13.0	19,250	14.2
Electricity cost	26,352	9.7	29,208	10.5	30,069	9.8	14,133	9.5	12,653	9.4
Repair and maintenance fee	10,147	3.7	8,436	3.0	9,032	2.9	5,329	3.6	3,436	2.5
Raw materials cost	3,054	1.1	3,715	1.3	3,628	1.2	1,386	0.9	960	0.7
Installation cost[(1)]	3,427	1.3	4,451	1.6	4,456	1.5	1,227	0.8	2,805	2.1
Outsourcing cost	–	–	–	–	616	0.2	146	0.1	575	0.4
Others[(2)]	7,027	2.7	7,923	2.9	6,843	2.2	2,697	1.8	2,269	1.7
Total	**270,846**	**100.0**	**277,805**	**100.0**	**306,986**	**100.0**	**149,628**	**100.0**	**135,045**	**100.0**

Notes:

(1) Installation cost is related to the costs incurred for our installation services of connecting the water pipeline to the end-users.

(2) Other costs mainly include safety and protection services fee, landscape and greenery fee, laboratory fee, water quality testing fee, waste treatment fee, office expenses, travelling expenses and consumables.

Raw water procurement fee and water resources fee constitute the largest component of our cost of sales, representing 40.6%, 42.9%, 48.9% and 50.7% of our total cost of sales, for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Depreciation expenses mainly represent depreciation of our water supply infrastructure, facilities and equipment. Our repair and maintenance fee represents the cost incurred in relation to repair and maintenance of our water supply infrastructure, facilities and equipment.

Gross profit and gross profit margin

The table below sets out the breakdown of our gross profit and gross profit margin by product/service categories for the Continued Operations for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Water supply										
Raw water	22,723	23.0	29,201	28.9	30,262	26.9	14,729	26.2	15,592	28.1
Municipal water	107,308	39.8	140,929	44.9	147,734	43.4	71,481	43.4	66,805	45.7
Tap water	6,518	18.3	12,981	31.4	16,807	37.5	6,796	33.2	7,196	36.0
Installation services	2,658	43.7	1,985	30.8	2,474	35.7	654	34.8	1,148	29.0
Total	**139,207**	**33.9**	**185,096**	**40.0**	**197,277**	**39.1**	**93,660**	**38.5**	**90,741**	**40.2**

Our gross profit was RMB139.2 million, RMB185.1 million, RMB197.3 million and RMB90.7 million for the year ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively, representing gross profit margin of 33.9%, 40.0%, 39.1% and 40.2% during the corresponding periods. The significant increase in gross profit margin of our raw water and municipal water in 2017 primarily due to the decreased unit cost of our water driven by (i) the increase in sales volume of our raw water and municipal water; and (ii) the decrease in fixed costs, such as depreciation expenses and repair and maintenance fee in 2017. The decrease in depreciation expenses in 2017 was mainly due to that certain water supply facilities and equipment arrived at the end of their estimated useful lives and thus ceased to provide depreciation in 2017. Our gross profit margin of our raw water and municipal water decreased slightly in 2018, primarily attributable to the upward adjustment of unit raw water procurement fee from 1 January 2018, partially offset by (i) the upward adjustment of unit selling price of our raw water and municipal water; and (ii) the decrease in the employee benefit expenses included in our cost of sales in 2018.

Our gross profit margin of our raw water and municipal water increased slightly for the six months ended 30 June 2019 compared to the six months ended 30 June 2018, primarily attributable to the decrease in the fixed costs in operation including (i) the decrease in depreciation expenses, mainly due to that certain water supply facilities and equipment arrived at the end of their estimated useful lives during the six months ended 30 June 2019 and thus ceased to provide depreciation; and (ii) the decrease in repair and maintenance fee.

Gross profit margin of our tap water supply increased from 18.3% in 2016 to 31.4% in 2017, primarily due to (i) an increase in the average unit selling price of our tap water by 7.1% because of the upward adjustment of unit selling price of our tap water since 1 July 2017; and (ii) a decrease in the repair and maintenance fees in relation to our tap water supply in 2017. Gross profit margin of our tap water further increased to 37.5% in 2018, primarily attributable

to (i) an increase in the average unit selling price of our tap water by 5.9% because of the upward adjustment of unit selling price of our tap water since 1 July 2017; and (ii) a decrease in employee benefit expenses due to the decrease in the number of employee in relation to tap water supply caused by the outsourcing of some works such as pipeline installation and meter reading since May 2018.

Gross profit margin of our tap water increased from 33.2% for the six months ended 30 June 2018 to 36.0% for the six months ended 30 June 2019, primarily attributable to an increase in the average unit selling price of our tap water by 2.2% because of the upward adjustment of unit selling price of our tap water since 1 January 2019.

Gross profit margin of our installation services is affected by the scale of installation services. Generally, we experience a higher gross profit margin for installation services provided for a whole building than individual households. We recorded higher gross profit margin for our installation services in 2016 primarily due to our undertaking of installation services for a real estate for a property developer.

Administrative expenses

The table below sets out our administrative expenses for the Continued Operations for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Employee benefit expenses	18,739	62.0	19,540	55.9	17,055	49.2	9,736	54.3	8,943	46.8
Depreciation expenses	4,142	13.7	5,917	16.9	7,336	21.2	4,000	22.3	4,805	25.1
Office expenses	2,231	7.4	2,679	7.7	2,700	7.8	1,233	6.9	1,322	6.9
Audit and consultancy fees	348	1.2	1,335	3.8	1,911	5.5	278	1.6	131	0.7
Listing expenses	–	–	–	–	–	–	–	–	201	1.1
Tax and surcharge	1,755	5.8	1,811	5.2	1,807	5.2	859	4.8	951	5.0
Outsourcing fee	231	0.8	183	0.5	1,142	3.3	355	2.0	911	4.8
Repair and maintenance fees	570	1.9	1,520	4.3	1,069	3.1	330	1.8	473	2.5
Travelling expenses	238	0.8	285	0.8	464	1.3	119	0.7	243	1.3
Electricity cost	279	0.9	287	0.8	286	0.8	144	0.8	123	0.6
Others	1,702	5.5	1,422	4.1	902	2.6	876	4.8	1,018	5.2
Total	**30,235**	**100.0**	**34,979**	**100.0**	**34,672**	**100.0**	**17,930**	**100.0**	**19,121**	**100.0**

Our administrative expenses mainly consist of employee benefit expenses paid to our management and administrative staff, depreciation expenses, office expenses, audit and consultancy fee, listing expenses, tax and surcharge, among other things. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our administrative expenses was RMB30.2 million, RMB35.0 million, RMB34.7 million and RMB19.1 million, representing 7.4%, 7.6%, 6.9% and 8.5%, of our total revenue for the corresponding periods, respectively.

Other income and gains

The table below sets out our other income and gains for the Continued Operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	924	532	1,574	847	585
Interest income from loans to related parties	–	6,629	6,384	6,384	–
Government grants	–	3,000	5,584	5,340	765
VAT refund	14,119	8,727	11,550	5,482	6,471
Others	1,893	2,023	1,452	690	54
	16,936	20,911	26,544	18,743	7,875
Gains					
Gain on disposal of financial assets at fair value through profit or loss	–	143	–	–	–
Gains on disposal of items of property, plant and equipment	238	220	826	5	14
	238	363	826	5	14
	17,174	21,274	27,370	18,748	7,889

Other income consisted primarily of VAT refund, government grants, bank interest income and interest income from loans to related parties, among other things.

Government grants recognised in 2017 and 2018 primarily represented the compensation made by local government of Zeguo Town for the loss of RMB8.3 million of Wenling Zeguo Water Supply accumulated before 31 May 2016. Such loss was primarily caused by (i) the depreciation of the facilities and equipment in relation to Zeguo Service Reservoir (澤國配水站), which was completed in May 2014, for the period from June 2014 to 31 May 2016; and (ii) corresponding financial costs. Pursuant to a memorandum entered into between Wenling Zeguo Town Government (溫嶺市澤國鎮人民政府) and our Company in November 2016, Wenling Zeguo Town Government would compensate our such loss by way of government grant. We received such grant as to RMB3.0 million in July 2017 and the remaining in January 2018. Government grants recognised for the six months ended 30 June 2019 represented social insurance exemption of two months of RMB0.8 million for our raw water business, according to the Notice of the General Office of the People's Government of Zhejiang Province on

Publishing and Issuing the Policy of Reducing Burden and Cost for Enterprises in Zhejiang Province (the first batch in 2019) (浙江省人民政府辦公廳關於印發浙江省企業減負降本政策(2019年第一批)的通知).

VAT refund represents the refund when the overall VAT payment exceeding 3% of our raw water supply revenue. Our raw water supply business was entitled with the VAT rate of 11% in 2012 which was adjusted to 10% on 1 May 2018 and 9% on 1 April 2019. When the overall VAT payment exceeds 3% of our raw water supply revenue, the excess part will be refunded to us.

Interest income from loans to related parties represent the interest income recognised for the entrusted loans to related parties, which were fully repaid in April 2018.

Other gains consisted primarily of gains on disposal of items of property, plant and equipment.

Other expenses

The table below sets out our other expenses for the Continued Operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Surcharge for overdue tax payment	–	–	2,139	2,139	–
Donation	151	95	99	13	360
Others	437	453	322	7	67
Total	**588**	**548**	**2,560**	**2,159**	**427**

Other expenses consisted primarily of surcharge for overdue tax payment, donation and others. According to Notice 71, we have been entitled to a VAT refund when the overall VAT payment exceeding 3% of our raw water supply revenue since 1 December 2012. We did not pay the Urban Maintenance and Construction Levy and Education Levy attaching to the VAT refund from December 2012 to February 2018 (the "Levies"). In April 2018, the local tax authority requested us to pay the Levies together with an overdue surcharge of RMB2.1 million. On 11 May 2019, the local tax authority issued a confirmation to us confirming that our late payment of the Levies was caused by the mis-interpretation of the application of Notice 71 during the transition of the conversion of Business Tax to VAT (營改增), and the overdue surcharge of RMB2.1 million is not deemed as administrative penalty.

Finance costs

The table below sets out our finance costs for the Continued Operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank borrowings	30,903	26,443	24,307	15,114	16,253
Interest on other borrowings	7,355	20,533	18,179	9,400	8,054
Less: Interest capitalised	–	(14,492)	(15,858)	(7,818)	(15,588)
	38,258	32,484	26,628	16,696	8,719

Our finance costs consisted primarily of interests on bank borrowings and other borrowings, partially offset by interest capitalisation.

For more details on our bank and other borrowings, please refer to "Financial information — Indebtedness". Interest incurred on borrowings used for construction of our water supply infrastructures was capitalised, which amounted to nil, RMB14.5 million, RMB15.9 million and RMB15.6 million, respectively, for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Income tax expense

Our income tax expense represents current tax and deferred tax. Current tax comprises primarily PRC corporate income tax for the entities comprising our Group and tax provisions, in respect of prior years. Deferred tax comprises mainly movement in deferred tax assets on recognised deductible temporary differences arising from provisions, government grants and unrealised profit attributable to the intra-group transactions. The following table sets forth the major components of our income tax expense for the Continued Operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax	29,806	44,592	42,850	21,430	18,359
Deferred tax	(4,536)	(7,902)	(2,313)	(2,396)	115
Total tax charge for the year/period from Continued Operations	25,270	36,690	40,537	19,034	18,474

During the Track Record Period, we and our subsidiaries were subject to a statutory rate of 25% except that one of our subsidiaries, Taizhou Environmental Development, enjoyed a preferential tax treatment of 50% deduction of the enterprise taxable income and a preferential tax rate of 20% applicable to small and micro enterprises since its establishment in September 2018.

Our income tax expenses were RMB25.3 million, RMB36.7 million, RMB40.5 million and RMB18.5 million for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, with effective income tax rate of 28.9%, 26.5%, 25.2% and 26.3%, respectively, for the corresponding periods. The relatively higher effective income tax rates for the year ended 31 December 2016 and 2017 and the six months ended 30 June 2019 were mainly due to the higher tax losses and temporary differences not recognised.

RESULTS OF OPERATIONS OF OUR GROUP FOR THE CONTINUED OPERATIONS

Six months ended 30 June 2019 compared to six months ended 30 June 2018

Revenue

Our revenue decreased by RMB17.5 million, or 7.2%, from RMB243.3 million for the six months ended 30 June 2018 to RMB225.8 million for the six months ended 30 June 2019. The decrease was primarily attributable to the combined effect of:

(i) revenue from sales of municipal water decreased by RMB18.4 million, or 11.2%, from RMB164.7 million for the six months ended 30 June 2018 to RMB146.3 million for the six months ended 30 June 2019, primarily due to the decrease in municipal water sales volume from 67.5 million tonnes to 59.9 million tonnes during the same period as a result of the increase in the rainfall volume;

(ii) revenue from sales of raw water decreased by RMB0.6 million, or 1.1%, from RMB56.2 million for the six months ended 30 June 2018 to RMB55.6 million for the six months ended 30 June 2019 primarily due to the decrease in raw water sales volume from 56.3 million tonnes to 54.6 million tonnes during the same period, partially offset by the slight increase in the unit selling price of our raw water by RMB0.02, or 2.0%, attributable to the decrease in the VAT rate for our raw water business, from 11% to 10% since 1 May 2018 and further to 9% since 1 April 2019;

(iii) revenue from sales of tap water decreased by RMB0.5 million, or 2.4%, from RMB20.5 million for the six months ended 30 June 2018 to RMB20.0 million for the six months ended 30 June 2019 primarily due to the decrease in tap water sales volume from 4.9 million tonnes to 4.7 million tonnes during the same period, partially offset by the upward adjustment in the unit selling price of our tap water which took effect on 1 January 2019; and

(iv) partially offset by an increase in revenue from our installation service of RMB2.1 million primarily as a result of the increase in "One account, One water meter (一戶一表)" water meter renovation projects of our Group, which expanded the installation business of water meters in Zeguo Town.

Cost of sales

Our cost of sales decreased by RMB14.6 million, or 9.8%, from RMB149.6 million for the six months ended 30 June 2018 to RMB135.0 million for the six months ended 30 June 2019. The decrease was primarily attributable to the combined effect of:

(i) the decrease in depreciation expenses by RMB7.2 million, or 22.6%, from RMB31.9 million for the six months ended 30 June 2018 to RMB24.7 million for the six months ended 30 June 2019, primarily due to that some of water supply facilities and equipment arrived at the end of their estimated useful lives during the six months ended 30 June 2019, and thus ceased to provide depreciation;

(ii) an aggregate decrease in raw water procurement fee and water resources fee by RMB4.9 million, or 6.7%, from RMB73.3 million for the six months ended 30 June 2018 to RMB68.4 million for the six months ended 30 June 2019 primarily due to the decrease in the purchase volume of raw water by 6.9 million tonnes during the same period;

(iii) a decrease in repair and maintenance fee by RMB1.9 million, or 35.8%, from RMB5.3 million for the six months ended 30 June 2018 to RMB3.4 million for the six months ended 30 June 2019;

(iv) a decrease in electricity expenses by RMB1.4 million, or 9.9%, from RMB14.1 million for the six months ended 30 June 2018 to RMB12.7 million for the six months ended 30 June 2019, which was generally in line with the decrease in the water treatment volume; and

(v) partially offset by an increase in installation cost by RMB1.6 million, or 133.3%, from RMB1.2 million for the six months ended 30 June 2018 to RMB2.8 million for the six months ended 30 June 2019 as a result of the increase in revenue from our installation services.

Gross profit and gross profit margin

As a result of above, our gross profit decreased by RMB3.0 million, or 3.2%, from RMB93.7 million for the six months ended 30 June 2018 to RMB90.7 million for the six months ended 30 June 2019. Our gross profit margin increased slightly from 38.5% for the six months ended 30 June 2018 to 40.2% for the six months ended 30 June 2019, primarily due to (i) the decrease in fixed costs in operation, such as depreciation expenses and repair and maintenance fee; and (ii) the upward adjustment of unit selling price of our tap water started from 1 January 2019.

Administrative expenses

Our administrative expenses increased by RMB1.2 million, or 6.7%, from RMB17.9 million for the six months ended 30 June 2018 to RMB19.1 million for the six months ended 30 June 2019. Such increase was primarily due to (i) the increase in depreciation expenses of RMB0.8 million, primarily attributable to the depreciation of the additional right-of-use assets, mainly for a parcel of land in relation to the water treatment plant for the Taizhou Water Supply System (Phase IV), which started to provide depreciation in March 2019; (ii) an increase in the outsourcing fee of RMB0.5 million due to that we started to outsource certain works, such as cleaning, driving and property management to a third party in April 2018 in order to optimise staff structure and reduce operation costs; and (iii) an increase in listing expenses of RMB0.2 million in relation to the Global Offering. The increase was partially offset by the decrease in employee benefit expenses of RMB0.8 million primarily because of the decrease in the number of our employees in administration department and logistics department, mainly due to the outsource of certain works since April 2018.

Other income and gains

Our other income and gains decreased by RMB10.8 million, or 57.8%, from RMB18.7 million for the six months ended 30 June 2018 to RMB7.9 million for the six months ended 30 June 2019. Such decrease was primarily due to (i) the decrease in interest income from loans to related parties of RMB6.4 million as a result of the fully repayment of the loans by the related parties in April 2018; and (ii) the decrease in government grants of RMB4.5 million mainly attributable to the government grants of RMB5.3 million received during the six months ended 30 June 2018 to compensate the accumulated loss for Wenling Zeguo Water Supply before 31 May 2016, which were absent for the six months ended 30 June 2019.

The decrease was partially offset by the increase in VAT refund of RMB1.0 million, primarily due to that (i) VAT refund of seven months for the tax period from October 2018 to April 2019 were received during the six months ended 30 June 2019, while VAT refund of five months for the tax period from December 2017 to April 2018 were received during the six months ended 30 June 2018, which was partially offset by the decrease in the VAT payment primarily due to (a) the decreases in VAT rate, from 11% to 10% beginning from 1 May 2018 and further to 9% since 1 April 2019; and (b) a decrease in the revenue for the first half of 2019 compared to the same period of 2018; and (ii) the VAT refund of RMB0.2 million for the VAT exemption for the revenue arising from the tap water supplied to rural residents, according to the Announcement 67, was recorded in the first half of 2019.

Other expenses

Our other expenses decreased by RMB1.8 million, or 81.8%, from RMB2.2 million for the six months ended 30 June 2018 to RMB0.4 million for the six months ended 30 June 2019. Such decrease was primarily due to the surcharge for overdue tax payment of RMB2.1 million we paid during the six months ended 30 June 2018, which did not recur for the six months ended 30 June 2019.

Finance costs

Our finance costs decreased by RMB8.0 million, or 47.9%, from RMB16.7 million for the six months ended 30 June 2018 to RMB8.7 million for the six months ended 30 June 2019.

Such decrease was primarily due to the combined effect of (i) the increase in interest on bank borrowings of RMB1.2 million; (ii) the decrease in interest on other borrowings of RMB1.3 million as a result of the repayment of finance lease payables of RMB22.8 million in January 2019; and (iii) the increase in interest capitalised of RMB7.8 million primarily as a result of the additional long term bank loans of RMB380.0 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), interests of which were fully capitalised during the six months ended 30 June 2019. For details of bank and other borrowings, please refer to "Indebtedness" of this section.

Income tax expense

Our income tax expense decreased by RMB0.5 million, or 2.6%, from RMB19.0 million for the six months ended 30 June 2018 to RMB18.5 million for the six months ended 30 June 2019. Such decrease was primarily due to the decrease in profit before tax from Continued Operations.

Profit for the period

As a result of the foregoing factors, our net profit from Continued Operations decreased by RMB4.7 million, or 8.3%, from RMB56.6 million for the six months ended 30 June 2018 to RMB51.9 million for the six months ended 30 June 2019.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our revenue increased by RMB41.4 million, or 8.9%, from RMB462.9 million for the year ended 31 December 2017 to RMB504.3 million for the year ended 31 December 2018. The increase was primarily attributable to the combined effect of:

(i) revenue from sale of raw water increased by RMB11.3 million, or 11.2%, from RMB101.1 million in 2017 to RMB112.4 million in 2018 primarily due to the upward adjustment of the unit selling price of raw water which took effect on 1 January 2018;

(ii) revenue from sale of municipal water increased by RMB26.0 million, or 8.3%, from RMB314.0 million in 2017 to RMB340.0 million in 2018 primarily due to (i) the increase in municipal water sales volume from 134.1 million tonnes in 2017 to 139.4 million tonnes in 2018; and (ii) the upward adjustment of the unit selling price which took effect on 1 January 2018; and

(iii) revenue from sale of tap water increased by RMB3.6 million, or 8.7%, from RMB41.3 million in 2017 to RMB44.9 million in 2018 primarily due to (i) the increase in tap water sales volume from 10.5 million tonnes in 2017 to 10.8 million tonnes in 2018 mainly as a result of the increase in number of end user accounts of Wenling Zeguo Water Supply; and (ii) the upward adjustment in the unit selling price of tap water which took effect on 1 July 2017.

Cost of sales

Our cost of sales increased by RMB29.2 million, or 10.5% from RMB277.8 million in 2017 to RMB307.0 million in 2018. The increase was primarily attributable to the combined effect of:

(i) the increase in raw water procurement fee by RMB29.5 million, or 43.6%, from RMB67.7 million in 2017 to RMB97.2 million in 2018 primarily due to (i) the upward adjustment of RMB0.1 of unit raw water procurement fee by the local pricing authority taking effect from 1 January 2018; and (ii) the increase in the purchase volume of raw water from 259.5 million tonnes in 2017 to 264.2 million tonnes in 2018;

(ii) the increase in water resources fee by RMB1.3 million, or 2.5%, from RMB51.5 million in 2017 to RMB52.8 million in 2018 primarily due to the increase in the purchase volume of raw water by 1.8%. Our water resources fee recorded a larger increase than that of the purchase volume of raw water as we were required to pay the water resources fee to Taizhou Water Bureau (台州市水利局) instead of Changtan Reservoir Affairs Centre started from 1 January 2018 according to Notice 261, and accordingly there has been no deductible VAT input arising from water resources fee we paid since 1 January 2018, which increased our purchase cost in 2018; and

(iii) the decrease in employee benefit expenses by RMB3.7 million, or 8.9% from RMB41.8 million in 2017 to RMB38.1 million in 2018 primarily due to the decreased number of our employees in the departments relating to production and operation function as of 31 December 2018 as compared to 31 December 2017. This was mainly because (i) we started to outsource certain works, such as part of pipeline installation and meter reading to a third party in April 2018 in order to optimise staff structure and reduce operation cost; and (ii) some employees in production and operation departments retired or resigned.

Gross profit and gross profit margin

As a result of above, our gross profit increased by RMB12.2 million, or 6.6%, from RMB185.1 million in 2017 to RMB197.3 million in 2018. Our gross profit margin decreased slightly from 40.0% in 2017 to 39.1% in 2018 primarily due to the upward adjustment of unit raw water procurement fee from 1 January 2018, partially offset by (i) the upward adjustment of unit selling price of our raw water and municipal water; and (ii) a decrease in the employee benefit expenses included in our cost of sales in 2018.

Administrative expenses

Our administrative expenses remained relatively stable in 2018 compared to 2017. The employee benefit expenses included in administrative expenses decreased by RMB2.4 million primarily due to the decreased number of our employees in the departments relating to administration and logistics functions as of 31 December 2018 as compared to 31 December 2017. This was mainly because we started to outsource certain works, such as cleaning, driving and property management to a third party in April 2018 in order to optimise staff

structure and reduce operation cost. Decrease in employee benefit expenses was substantially offset by (i) an increase in depreciation expenses of RMB1.4 million primarily attributed by the depreciation of the additional right-of-use assets mainly for a parcel of land in relation to the water treatment plant in the Taizhou Water Supply System (Phase III), which started to contribute amortisation in May 2017; and (ii) an increase in the outsourcing cost of RMB0.9 million.

Other income and gains

Our other income and gains increased by RMB6.1 million, or 28.6% from RMB21.3 million in 2017 to RMB27.4 million in 2018. Such increase was primarily due to (i) the increase in VAT refund of RMB2.9 million primarily due to (a) the increase in VAT we paid in 2018 as the water resources fee we paid to Taizhou Water Bureau (台州市水利局) pursuant to Notice 261 with effect from 1 January 2018 was not entitled to deduction in VAT input; and (b) the increased VAT we paid because of the increased revenue from raw water supply; and (ii) the increase in the government grants we received of RMB2.6 million.

Other expenses

Our other expenses increased by RMB2.1 million, or 420.0% from RMB0.5 million in 2017 to RMB2.6 million in 2018. Such increase was primarily due to the surcharge for overdue tax payment of RMB2.1 million we paid in 2018.

Finance costs

Our finance costs decreased by RMB5.9 million, or 18.2% from RMB32.5 million in 2017 to RMB26.6 million in 2018. Such decrease was primarily due to (i) the decrease in interest on bank borrowings of RMB2.1 million because of the decrease in the average balance of bank borrowings; (ii) the decrease in interest on other borrowings of RMB2.4 million as a result of the decrease in finance lease payables; and (iii) the increase in interest capitalised of RMB1.4 million. For details of bank and other borrowings, please refer to "Indebtedness" of this section.

Income tax expense

Our income tax expense increased by RMB3.8 million, or 10.4% from RMB36.7 million in 2017 to RMB40.5 million in 2018. Such increase was primarily due to the increase in profit before tax from Continued Operations.

Profit for the year

As a result of the foregoing factors, our profit for the year from Continued Operations increased by RMB18.6 million, or 18.3%, from RMB101.7 million in 2017 to RMB120.3 million in 2018.

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our revenue increased by RMB52.8 million, or 12.9% from RMB410.1 million for the year ended 31 December 2016 to RMB462.9 million for the year ended 31 December 2017. The increase was primarily attributable to the combined effect of:

(i) revenue from sale of raw water increased slightly by RMB2.1 million, or 2.1%, from RMB99.0 million in 2016 to RMB101.1 million in 2017 primarily due to the increase in raw water sales volume from 107.3 million tonnes in 2016 to 111.0 million tonnes in 2017 as a result of the lower rainfall volume recorded in Taizhou in 2017 compared to 2016;

(ii) revenue from sale of municipal water increased by RMB44.6 million, or 16.6%, from RMB269.4 million in 2016 to RMB314.0 million in 2017 primarily due to the increase in municipal water sales volume from 115.1 million tonnes in 2016 to 134.1 million tonnes in 2017 as a result of the lower rainfall volume recorded in Taizhou in 2017 compared to 2016;

(iii) revenue from sale of tap water increased by RMB5.7 million, or 16.0%, from RMB35.6 million in 2016 to RMB41.3 million in 2017 primarily due to (i) the increase in tap water sales volume from 9.7 million tonnes in 2016 to 10.5 million tonnes in 2017 primarily as a result of the increase in number of end user accounts of Wenling Zeguo Water Supply; and (ii) the upward adjustment in the unit selling price of tap water taking effect on 1 July 2017.

Cost of sales

Our cost of sales increased by RMB7.0 million, or 2.6%, from RMB270.8 million in 2016 to RMB277.8 million in 2017. The increase was primarily attributable to the combined effect of:

(i) the aggregate increase in raw water procurement fee and water resources fee by RMB9.1 million, or 8.3%, from RMB110.2 million in 2016 to RMB119.2 million in 2017 primarily due to the increase in the purchase volume of raw water from 233.4 million tonnes to 259.5 million tonnes in 2017;

(ii) the increase in electricity costs by RMB2.8 million, or 10.6%, from RMB26.4 million in 2016 to RMB29.2 million in 2017 primarily due to the increase in the water supply volume; and

(iii) decrease in depreciation expenses by RMB5.6 million, or 8.2%, from RMB68.6 million in 2016 to RMB63.0 million in 2017 primarily due to that some of facilities and equipment arrived at the end of their estimated useful lives and thus ceased to provide depreciation in 2017.

Gross profit and gross profit margin

As a result of above, our gross profit increased by RMB45.9 million, or 33.0%, from RMB139.2 million in 2016 to RMB185.1 million in 2017. Our gross profit margin increased from 33.9% in 2016 to 40.0% in 2017. This was primarily due to (i) the decreased unit cost of our water driven by (a) the increase in sales volume and (b) the decrease in fixed costs, such as depreciation expenses and maintenance fee; and (ii) the upward adjustment of the unit selling price of tap water taking effect from 1 July 2017.

Administrative expenses

Our administrative expenses increased by RMB4.8 million, or 15.9%, from RMB30.2 million in 2016 to RMB35.0 million in 2017. Such increase was primarily due to (i) the increase in depreciation expenses of RMB1.8 million for the depreciation of the additional right-of-use assets in 2017, mainly for a parcel of land in relation to the water treatment plant in the Taizhou Water Supply System (Phase III); (ii) the increase in audit and consultancy fees of RMB1.0 million; and (iii) the increase in repair and maintenance fees of RMB0.9 million.

Other income and gains

Our other income and gains increased by RMB4.1 million, or 23.8% from RMB17.2 million in 2016 to RMB21.3 million in 2017. Such increase was primarily due to (i) the interest income of RMB6.6 million arising from the entrusted loans we granted to Zhejiang Mingji for the period from October to December 2017, which was eliminated on consolidation before the Mingji Demerger; and (ii) the government grants of RMB3.0 million as compensation for accumulated loss prior to 31 May 2016 primarily caused by the depreciation of the facilities and equipment in relation to Zeguo Service Reservoir, partially offset by the decrease in VAT refund of RMB5.4 million. Our VAT refund decreased from RMB14.1 million in 2016 to RMB8.7 million in 2017 primarily because the raw water procurement fee and water resources fee we paid was entitled to deduction in VAT input for eight months (May 2016 to December 2016) in 2016 due to the nationwide promoting of the conversion of Business VAT (營改增) from 1 May 2016, while the VAT input in relation to such fees was deductible during the whole year of 2017, and therefore we paid less VAT in 2017 as compared to 2016.

Other expenses

Our other expenses remained relatively stable in 2017 compared to 2016.

Finance costs

Our finance costs decreased by RMB5.8 million, or 15.1% from RMB38.3 million in 2016 to RMB32.5 million in 2017. Such decrease was primarily due to the interest capitalised of RMB14.5 million and the decreases in interest on bank borrowings of RMB4.5 million, partially offset by the increase in interest on other bank borrowings of RMB13.2 million primarily due to the CDB Loan we obtained in December 2016. For details of bank and other borrowings, please refer to "Indebtedness" of this section.

Income tax expense

Our income tax expense increased by RMB11.4 million, or 45.1% from RMB25.3 million in 2016 to RMB36.7 million in 2017. Such increase was primarily due to the increase in profit before tax from Continued Operations.

Profit for the year

As a result of the foregoing factors, our profit for the year from Continued Operations increased by RMB39.7 million, or 64.0%, from RMB62.0 million in 2016 to RMB101.7 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our liquidity requirements primarily related to our working capital needs and other recurring expenses, and our principal source of funds was mainly from bank and other borrowings and working capital generated internally from our operation. During the Track Record Period, we did not experience any material liquidity shortage.

Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from the net proceeds of the Global Offering for implementing our future plans as detailed in "Future plans and use of proceeds" of this prospectus.

Cash flows

The table below sets out a summary information of our cash flows, as set out in the accountants' report in Appendix I to this prospectus, for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash from operating activities	454,859	469,367	194,126	39,154	139,465
Net cash from/(used in) investing activities	(17,363)	(429,123)	(51,054)	225,504	(397,524)
Net cash from/(used in) financing activities	173,217	(384,622)	(314,459)	(266,258)	284,252
Net increase/(decrease) in cash and cash equivalents	610,713	(344,378)	(171,387)	(1,600)	26,193
Cash and cash equivalents at beginning of year	219,450	830,163	485,785	485,785	314,398
Cash and cash equivalents at end of year	830,163	485,785	314,398	484,185	340,591

Net cash from operating activities

For the year ended 31 December 2016, we had net cash generated from operating activities of RMB454.9 million, of which RMB230.7 million was from Continued Operations, mainly reflecting (i) our profit before tax for Continued Operations of RMB87.3 million; (ii) depreciation for Continued Operations of RMB73.9 million; and (iii) change in working capital, primarily on increase in trade payables of RMB63.2 million.

For the year ended 31 December 2017, we had net cash generated from operating activities of RMB469.4 million, of which RMB173.5 million was from Continued Operations, mainly reflecting (i) our profit before tax for Continued Operations of RMB138.4 million; and (ii) depreciation for Continued Operations of RMB69.8 million, partially offset by the change in working capital, primarily on increase in trade receivables of RMB47.4 million.

For the year ended 31 December 2018, we had net cash generated from operating activities of RMB194.1 million, of which RMB198.3 million was from Continued Operations, mainly reflecting (i) our profit before tax for Continued Operations of RMB160.8 million; and (ii) depreciation for Continued Operations of RMB71.5 million, partially offset by the change in working capital, primarily on decrease in trade payables as well as other payables and accruals of RMB32.0 million.

For the six months ended 30 June 2019, we had net cash generated from operating activities of RMB139.5 million, all of which was from Continued Operations, mainly reflecting (i) our profit before tax of RMB70.4 million; (ii) depreciation of RMB29.6 million; and (iii) change in working capital, primarily on increase in deferred government grants of RMB50.0 million which was received during the six months ended 30 June 2019.

Net cash from/(used in) investing activities

For the year ended 31 December 2016, we used net cash of RMB17.4 million in investing activities, primarily attributable to purchases of items of property, plant and equipment of RMB17.6 million, which was mainly for Continued Operations.

For the year ended 31 December 2017, we used net cash of RMB429.1 million in investing activities. primarily attributable to (i) purchase of items of property, plant and equipment of RMB152.9 million; (ii) increase in prepayment for land use rights of RMB9.0 million and additions to right-of-use assets of RMB165.8 million mainly for the land in relation to Taizhou Water Supply System (Phase III); (iii) purchase of additional interest in an associate of RMB25.0 million, and (iv) increase in pledged deposits of RMB10.8 million, partially offset by (i) repayment of loans to related parties of RMB96.0 million; and (ii) interests received from related parties of RMB6.6 million for the entrusted loans granted to Zhejiang Mingji and its subsidiary, which was mainly for Continued Operations. In addition, RMB168.6 million was cash outflow arising from the Demerger in 2017.

For the year ended 31 December 2018, we used net cash of RMB51.1 million in investing activities. primarily attributable to (i) purchase of property, plant and equipment of RMB329.7 million in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); (ii) additions to right-of-use assets of RMB42.0 million and increase in prepayment for land use rights of RMB2.1 million; and (iii) purchase of additional

interest in an associate of RMB9.6 million, partially offset by the repayment of loans to related parties of RMB320.0 million and interests received from related parties of RMB7.1 million, which was mainly for Continued Operations. In addition, RMB7.9 million was proceeds from disposal of subsidiaries in 2018.

For the six months ended 30 June 2019, we used net cash of RMB397.5 million in investing activities, primarily attributable to (i) purchase of property, plant and equipment of RMB204.5 million in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); (ii) additions to right-of-use assets of RMB146.2 million, mainly in relation to lands for Taizhou Water Supply System (Phase IV) and Taizhou Water Supply System (Phase III); and (iii) purchase of additional interest in an associate of RMB45.0 million.

Net cash from/(used in) financing activities

For the year ended 31 December 2016, we had net cash from financing activities of RMB173.2 million. For Continued operations, we had net cash from financing activities of RMB283.0 million, primarily reflecting the additional borrowings of RMB655.0 million mainly representing the CDB Loan, partially offset by (i) repayment of bank and other borrowings of RMB313.6 million; and (ii) interest paid of RMB58.4 million.

For the year ended 31 December 2017, we had net cash used in financing activities of RMB384.6 million. For Continued operations, we had net cash used in financing activities of RMB214.4 million, primarily reflecting (i) repayment of bank and other borrowings of RMB252.0 million; and (ii) interest paid of RMB57.4 million, partially offset by new borrowings of RMB95.0 million.

For the year ended 31 December 2018, all net cash we used in financing activities of RMB314.5 million was for Continued operations, which was reflected by (i) repayment of bank and other borrowings of RMB373.5 million; and (ii) interest paid of RMB42.9 million, partially offset by (i) the additional borrowings of RMB62.0 million; and (ii) capital contribution from non-controlling interests of RMB40.0 million.

For the six months ended 30 June 2019, cash from financing activities of RMB284.3 million, all of which was for Continued operations, mainly reflecting additional borrowings of RMB380.0 million for the construction of Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), partially offset by (i) the repayment of bank and other borrowings of RMB71.7 million; and (ii) interest paid of RMB24.0 million.

DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net current assets

The following table sets forth the breakdown of our current assets, current liabilities and net current assets as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
CURRENT ASSETS					
Properties under development	827,230	–	–	–	–
Completed properties held for sale	269,234	–	–	–	–
Inventories	3,966	4,167	4,213	4,391	4,527
Trade receivables	125,447	164,979	109,190	85,975	114,581
Prepayments, other receivables and other assets	34,280	324,996	18,982	20,741	27,463
Pledged deposits	–	10,829	14,877	16,693	16,717
Cash and cash equivalents	830,163	485,785	314,398	340,591	239,466
Total current assets	2,090,320	990,756	461,660	468,391	402,754
CURRENT LIABILITIES					
Trade payables	286,338	85,444	68,471	60,378	80,252
Other payables and accruals	498,962	151,947	160,680	177,901	192,230
Interest-bearing bank and other borrowings	340,801	374,171	22,786	–	–
Deferred government grants	329	1,902	2,725	2,725	2,725
Lease liabilities	617	1,760	19,291	5,380	5,380
Tax payable	86,496	52,113	17,003	14,298	9,633
Total current liabilities	1,213,543	667,337	290,956	260,682	290,220
NET CURRENT ASSETS	876,777	323,419	170,704	207,709	112,534

Our net current assets decreased by RMB553.4 million, or 63.1%, from RMB876.8 million as of 31 December 2016 to RMB323.4 million as of 31 December 2017, primarily due to (i) the decrease in properties under development and completed properties held for sale of RMB1,096.5 million because of the Demerger in 2017 as Zhejiang Mingji had significant balance of properties as of 31 December 2016; and (ii) the decrease in cash and cash equivalents of RMB344.4 million, primarily attributable to (a) the acquisition of a land for the water plant of Taizhou Water Supply System (Phase III) and the lease of lands for the water supply pipelines constructions for Taizhou Water Supply System (Phase III); (b) the payments

we made to third parties for the preparation works prior to the commencement of the construction of Taizhou Water Supply System (Phase III), such as feasibility study and project design, as well as the compensation for temporary occupation of lands and reclamation fees we made to the relevant local governments in advance for the Taizhou Water Supply System (Phase III), all of which are recognised as construction in progress; and (c) the Demerger in 2017.

Such amounts were partially offset by (i) a decrease in trade payables of RMB200.9 million and a decrease in other payables and accruals of RMB347.1 million mainly as a result of the Demerger in 2017; (ii) an increase in prepayments, other receivables and other assets of RMB290.7 million mainly attributable to the entrusted loans granted to related parties, Zhejiang Mingji and its subsidiary, amount of which was eliminated on consolidation before the Mingji Demerger; and (iii) an increase in trade receivables of RMB39.6 million primarily as a result of (i) the increase in our revenue in 2017; and (ii) the late payment of our trade receivables from our customers.

Our net current assets decreased by RMB152.7 million, or 47.2% from RMB323.4 million as of 31 December 2017 to RMB170.7 million as of 31 December 2018, primarily due to (i) a decrease in prepayments, other receivables and other assets of RMB306.0 million attributable to the repayment of entrusted loans from related parties; (ii) a decrease in cash and cash equivalents of RMB171.4 million primarily reflecting the payments we made for the constructions of our new projects in 2018, and our construction in progress, which is recognised as non-current asset, increased accordingly during the same year; and (iii) a decrease in trade receivables of RMB55.8 million, resulting from our increased collection efforts on trade receivables. Such amounts were partially offset by the decrease in interest-bearing bank and other borrowings of RMB351.4 million due to repayment.

Our net current assets increased by RMB37.0 million, or 21.7%, from RMB170.7 million as of 31 December 2018 to RMB207.7 million as of 30 June 2019 mainly because we obtained more long term bank loans, which is recognised as non-current liabilities, to fund the constructions of our new projects during the six months ended 30 June 2019, and repaid all short term borrowings during the same period. Such increase in our net current assets was primarily reflected by (i) an increase in cash and cash equivalents of RMB26.2 million; (ii) a decrease in short-term interest-bearing bank and other borrowings of RMB22.8 million due to the repayment of other borrowings; and (iii) a decrease in lease liabilities of RMB13.9 million due to substantial payment we made during the six months ended 30 June 2019, partially offset by (i) a decrease in trade receivables of RMB23.2 million primarily due to our continued efforts on receivables collection and the decrease in the sales of our water; and (ii) an increase in other payables and accruals of RMB17.2 million, primarily attributable to the constructions for the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

Our net current assets decreased by RMB95.2 million, or 45.8%, from RMB207.7 million as of 30 June 2019 to RMB112.5 million as of 31 October 2019 mainly because of the substantial payment for the constructions of our new projects during the four months ended 31 October 2019. Such decrease in our net current assets was primarily reflected by (i) a decrease in cash and cash equivalents of RMB101.1 million; (ii) an increase in trade payables of RMB19.9 million primarily due to the late payment to Changtan Reservoir Affairs Centre in September and October 2019; and (iii) an increase in other payables and accruals of RMB14.3

million primarily attributable to (a) the increase in interest payable of RMB5.0 million as of 31 October 2019 as compared to 30 June 2019 resulting from the quarterly payment of interest in the last month of the corresponding quarter; (b) the increase in accrued salaries of RMB3.9 million mainly resulting from the accrual of bonus for the year of 2019 during the four months ended 31 October 2019; (c) the increase in other payables of RMB3.2 million for the constructions of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); and (d) the increase in payables of RMB2.2 million for the listing expenses in relation to the Global Offering, which was partially offset by an increase in trade receivables of RMB28.6 million primarily as a result of the late payment of trade receivables from some customers.

Sufficiency of working capital

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including our expected cash flow generated from our operating activities, the estimated net proceeds from the Global Offering and our credit facilities maintained with banks, our Group has sufficient working capital for our present requirements and for the next 12 months commencing from the date of this prospectus.

Property, plant and equipment

During the Track Record Period, our property, plant and equipment mainly comprises construction in progress, water supply pipelines, buildings, machinery and equipment for water supply business. Our property, plant and equipment was RMB649.2 million, RMB749.0 million, RMB1,037.1 million and RMB 1,273.9 million as of 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

Our property, plant and equipment increased by RMB99.8 million, or 15.4%, from RMB649.2 million as of 31 December 2016 to RMB749.0 million as of 31 December 2017, mainly due to the additions of construction in progress in relation to Taizhou Water Supply System (Phase III).

Our property, plant and equipment further increased to RMB1,037.1 million as of 31 December 2018 and RMB1,273.9 million as of 30 June 2019, mainly due to additions of construction in progress related to Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Prepayments for land use rights

Prepayment for land use rights were RMB51.5 million, RMB60.5 million, RMB62.7 million and RMB 53.8 million, respectively, as of 31 December 2016, 2017, 2018 and 30 June 2019. Prepayment for land use rights of RMB51.5 million as of 31 December 2016, 2017, 2018 and 30 June 2019 represents land premium prepaid in connection with the acquisition of a parcel of land pursuant to the Minutes on the Co-ordination Meeting on 7 July 2006 for the Construction of Taizhou Water Treatment Plant (No. 15 Tai Zhen Ban Han [2006])《台州水廠建設有關問題協調專題會議紀要》(台政辦便函[2006]15號) issued by the Office of the People's Republic of Taizhou (台州市人民政府辦公室). No construction works have been carried out on the land and therefore no title documents have been applied for since the payment of the land premium. We will apply for the relevant title documents for the land when we commence construction works.

Right-of-use assets and lease liabilities

Our right-of-use assets mainly represent (i) the land use rights for the land we had land use right certificate and the land premium and other costs we paid for obtaining the land use right certificate of a land; and (ii) the lands we leased for the water supply pipelines constructions under the lease contracts with generally two to four years. Our lease liabilities are measured at the present value of the lease payments to be made relating to our lease of lands for the water supply pipelines constructions over the lease term.

Our right-of-use assets increased from RMB64.5 million as of 31 December 2016 to RMB221.8 million as of 31 December 2017. Such increase was mainly due to the additions of right-of-use assets of RMB166.9 million in 2017, comprising (i) land use rights for the land we had land use rights certificates of RMB147.1 million for the water plant of Taizhou Water Supply System (Phase III); and (ii) the lands we leased for the water supply pipelines constructions of RMB19.8 million for Taizhou Water Supply System(Phase III). Our right-of-use assets increased from RMB221.8 million as of 31 December 2017 to RMB264.0 million as of 31 December 2018. Such increase was mainly due to the additions of right-of-use assets of RMB59.6 million in 2018, comprising (i) the lands we leased for the water supply pipelines constructions of RMB53.1 million for the constructions of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV); (ii) a Deed tax we paid for the land with land use rights certificates mentioned above. Our right-of-use assets increased from RMB264.0 million as of 31 December 2018 to RMB385.5 million as of 30 June 2019, mainly due to (i) a land premium of RMB94.8 million we paid in January 2019 for a parcel of land, the land use right certificate of which was obtained in March 2019, for the construction of the water plant of Taizhou Water Supply System (Phase IV); and (ii) a land premium of RMB37.6 million we paid in June 2019 for lands used for the construction of the Taizhou Water Supply System (Phase III).

Our lease liabilities increased from RMB0.6 million as of 31 December 2016 to RMB1.8 million as of 31 December 2017 and further increased to RMB19.3 million as of 31 December 2018, such increase was mainly due to the additions of the land we leased for the water supply pipelines constructions of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), which was partially offset by the payment for the lease liabilities during the year. Our lease liabilities decreased from RMB19.3 million as of 31 December 2018 to RMB5.4 million as of 30 June 2019, mainly due to the substantial payment for lease liabilities we made for the six months ended 30 June 2019.

We have assessed the effects of the adoption of HKFRS 16 on our consolidated financial statements and consider that the adoption of HKFRS 16 did not have significant impact on our key financial ratios (e.g. gearing ratio, current ratio and quick ratio, return on total assets, return on equity and interest coverage ratio) and our financial position and performance. For details, please refer to "— Basis of preparation — Application of HKFRS 9, HKFRS 15 and HKFRS 16".

Inventories

Our inventories mainly comprise raw materials including chemicals used in our water treatment process. As of 31 December 2016, 2017, 2018 and 30 June 2019, we recorded inventories of RMB4.0 million, RMB4.2 million, RMB4.2 million and RMB4.4 million, respectively. The following table sets out information on our inventories as of the dates indicated:

	As of 31 December			As of 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	3,966	4,167	4,213	4,391
	3,966	4,167	4,213	4,391

The following table sets out information on our average inventory turnover days for the years indicated:

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
Average inventory turnover days *(note)*	5	5	5	6

Note: Inventory turnover days are calculated by dividing the average of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by the number of days in the relevant period.

Our average inventory turnover days remained stable at 5 to 6 days during the Track Record Period.

As of 31 October 2019, RMB1.9 million, or 43.2%, of our inventories as of 30 June 2019 was subsequently consumed.

Trade receivables

During Track Record Period, our trade receivables are primarily related to receivables from customers under our water supply business. The table below sets out a breakdown of our trade receivables for the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
Related parties[(1)]	92,503	107,641[(2)]	96,157	80,577
Others	82,781	107,782	63,019	56,080
	175,284	215,423	159,176	136,657
Impairment	(49,837)	(50,444)	(49,986)	(50,682)
	125,447	164,979	109,190	85,975

Notes:

(1) Trade receivables were due from related parties including Wenling Water Supply, Taizhou Luqiao Water Supply, Yuhuan Water Supply and Zhejiang Huangyan Water Supply.

(2) In addition to the related parties mentioned above, trade receivables due from related parties as of 31 December 2017 also included Zhenjiang Mingji, a wholly-owned subsidiary of Zhejiang Mingji, and Water Supply Hotel. Among which, (i) RMB1.5 million was related to the landscape construction services provided to Zhenjiang Mingji by Zhejiang Taizhou Landscape; and (ii) RMB0.2 million was related to the construction services provided to Water Supply Hotel by Taizhou Modern Construction. Both Zhejiang Taizhou Landscape and Taizhou Modern Construction were wholly-owned by our Company until 14 November 2018.

An aging analysis of the trade receivables as of the indicated dates, based on the invoice date and net of loss allowance, is as follows:

	As of 31 December						As of 30 June	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Within 3 months	115,124	91.8	147,983	89.7	89,817	82.2	81,032	94.3
3 to 6 months	5,663	4.5	13,765	8.4	10,893	10.0	2,358	2.7
6 to 12 months	2,803	2.2	2,201	1.3	8,057	7.4	964	1.1
1 to 2 years	837	0.7	819	0.5	121	0.1	1,260	1.5
2 to 3 years	1,020	0.8	211	0.1	302	0.3	361	0.4
	125,447	100.0	164,979	100.0	109,190	100.0	85,975	100.0

The movements in the loss allowance for impairment of trade receivables as of the indicated dates are as follows:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	49,376	49,837	50,444	49,986
Impairment losses recognised	461	736	120	696
Demerger of subsidiaries	–	(129)	–	–
Disposal of subsidiaries	–	–	(578)	–
At end of year/period	49,837	50,444	49,986	50,682

We made provision for impairment by applying the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Our Directors overall consider the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses, and consider the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

Upon the operation of the Taizhou Water Supply System (Phase II), prior to the local pricing authorities fixing the selling prices, water was sold to our customers at estimated prices. The final prices subsequently fixed by Taizhou DRC, which took effect from the commencement of operation of the Taizhou Water Supply System (Phase II), turned out to be higher than the estimated prices, and we therefore invoiced the shortfall between the final price fixed by Taizhou DRC and the estimated prices for the payment from our customers with the amount of RMB48.7 million. Such trade receivables aged over three years during the Track Record Period, and was fully made provision for impairment for prudence's sake, which was included in the balance of impairment as of 31 December 2016, 2017, 2018 and 30 June 2019. After considering that (i) we have obtained confirmations about such outstanding receivables from our customers, all of which are state-owned local municipal water service providers; and (ii) there was no sign of any deterioration in our customers' financial conditions, our Directors are of the view that there is still a reasonable expectation of collection of such receivables and no writing off in respect of these balances is necessary.

Our trade receivables increased from RMB125.4 million as of 31 December 2016 to RMB165.0 million as of 31 December 2017. Such increase was mainly attributable to (i) the increase in our revenue in 2017; and (ii) the late payment of our trade receivables from our customers. Despite the increased revenue from our water supply business in 2018, our trade receivables decreased to RMB109.2 million as of 31 December 2018 mainly because we increased our collection efforts on trade receivables. Our trade receivables further decreased to RMB86.0 million as of 30 June 2019, mainly attributable to (i) our increased collection efforts on trade receivables; and (ii) the decrease in revenue during the six months ended 30 June 2019.

The following table sets out the trade receivables turnover days of our Group for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
Average turnover days of trade receivables *(note)*	71	115	99	78

Note: Average turnover days of trade receivables are derived by dividing the average of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying by the number of days in the relevant period.

Our Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. During the Track Record Period, we generally grant our customers a credit period of 60 days. Our average trade receivable turnover days were 71 days, 115 days, 99 days and 78 days for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our trade receivables turnover days increased from 71 days in 2016 to 115 days in 2017, primarily due to the increase in the balance of our trade receivables as of 31 December 2017. As we increased collection efforts on trade receivables, our average trade receivable turnover days then decreased to 99 days in 2018 and further to 78 days for the six months ended 30 June 2019.

Our average trade receivables turnover days were longer than the credit periods we granted, as most of our customers are state-owned enterprises and have a good track record with us.

As of 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, certain of our Group's trade receivables with carrying amounts of RMB61.2 million, RMB139.6 million, RMB93.6 million, RMB73.8 million and RMB98.6 million, respectively, were pledged to secure our bank loans.

As of 31 October 2019, RMB79.7 million, or 92.7%, of our trade receivables as of 30 June 2019 were subsequently settled.

Prepayments, other receivables and other assets

The following table sets forth the breakdown of our prepayments, other receivables and other assets as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	634	1,600	4,395	1,897
Deposits and other receivables	103,754	14,128	13,728	13,577
Due from related parties	–	320,747	–	308
Costs to obtain contracts	679	–	–	–
Prepaid income tax	1,746	861	861	1,848
Prepaid LAT	5,904	–	–	–
Contract assets	–	–	–	3,115
Prepaid other taxes	15,464	664	–	–
	128,181	338,000	18,984	20,745
Non-current portion included in deposits and other receivables	(13,000)	(13,000)	–	–
	115,181	325,000	18,984	20,745
Impairment allowance	(80,901)	(4)	(2)	(4)
	34,280	324,996	18,982	20,741

The increase in the carrying amount of our prepayments, other receivables and other assets from RMB115.2 million as of 31 December 2016 to RMB325.0 million as of 31 December 2017 was primarily due to the entrusted loans of RMB320.7 million we granted to Zhejiang Mingji and its subsidiary, amount of which was eliminated on consolidation before the Mingji Demerger in 2017.

The carrying amount of our prepayments, other receivables and other assets then decreased from RMB325.0 million as of 31 December 2017 to RMB19.0 million as of 31 December 2018, primarily due to the settlement of the entrusted loans of RMB320.7 million mentioned above, partially offset by an increase in deposits and other receivable of RMB12.6 million mainly attributable to the reclassification of deposit for finance lease with a maturity date of 1 January 2019 from non-current assets to current assets. The return of deposit of RMB13.0 million upon the maturity of the finance lease in January 2019, led to the decrease in deposits and other receivables, partially offset by (i) the increase in the listing expenses capitalised as other receivables of RMB9.0 million, which was expected to be charged against equity upon the Global Offering; and (ii) a temporary compensation of RMB3.5 million we paid to a village in Zeguo Town, which failed to pass the acceptance examination of its Rural Land Comprehension Improvement Project (農村土地綜合整治項目) as a whole and was

therefore unable to receive the subsidies in time as a result of the construction of tunnels for the Taizhou Water Supply System (Phase III). Such temporary compensation will be repaid by the People's Government of Zeguo Town after the Rural Land Comprehension Improvement Project (農村土地綜合整治項目) mentioned above passing the acceptance examination.

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	As of 31 December			As of June 30
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	80,761	80,901	4	2
Impairment losses recognised	351	27	266	2
Write-off	(211)	–	–	–
Demerger of subsidiaries	–	(80,924)	–	–
Disposal of subsidiaries	–	–	(268)	–
At end of year/period	80,901	4	2	4

As of 31 December 2016, we recorded a loss allowance for impairment of RMB80.9 million, which represents the land premium paid by a company within the Demerger group.

Trade payables

Trade payables mainly comprised outstanding payments for raw water procurement, water resources fee and raw materials used in the water treatment process, and also payables for properties development constructions for the Discontinued Operations.

Our trade payables decreased from RMB286.3 million as of 31 December 2016 to RMB 85.4 million as of 31 December 2017 was primarily due to the Mingji Demerger in 2017. Our trade payables decreased from RMB85.4 million as of 31 December 2017 to RMB68.5 million as of 31 December 2018, mainly attributable to our timely payment of raw water procurement fee to Changtan Reservoir Affairs Centre in 2018. Our trade payables decreased from RMB68.5 million as of 31 December 2018 to RMB60.4 million as of 30 June 2019, mainly because (i) the raw water procurement volume decreased in line with the decrease in the sales volume of our water; and (ii) we put more emphasis on timely payment of raw water procurement fee during the six months ended 30 June 2019.

The table below sets out an ageing analysis of our trade payables based on the invoice date as of the dates indicated.

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	153,837	41,421	42,764	39,040
3 to 6 months	34,258	28,459	21,607	17,777
6 to 12 months	80,506	10,788	597	130
Over 12 months	17,737	4,776	3,503	3,431
	286,338	85,444	68,471	60,378

The following table sets out the trade payables turnover days of our Group for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
Trade payables turnover days *(Note)*	226	244	92	86

Note: Average trade payables turnover days are calculated by dividing the average of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying by the number of days in the relevant period.

Our average trade payables turnover days are 226 days, 244 days, 92 days and 86 days for the three years ended 31 December 2018 and six months ended 30 June 2019, respectively. The higher average trade payables turnover days in 2016 and 2017 was mainly due to the substantial trade payables in relation to properties development constructions included in trade payables as of 31 December 2016, which resulted in the higher balance of average trade payables in 2016 and 2017. Our average trade payables turnover days for the Continued Operations are 98 days, 123 days, 90 days and 86 days for the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively.

As of 31 October 2019, RMB27.8 million, or 46.0%, of our trade payables as of 30 June 2019 were subsequently settled.

Other payables and accruals

The following table sets out the breakdown of other payables and accruals as of the dates indicated:

	As of 31 December			As of 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	43,396	80,524	122,356	143,025
Due to related parties	–	1,403	–	2,081
Accrued salaries	34,959	34,142	26,564	23,168
Interest payable	1,931	1,531	1,099	1,444
Rental income received in advance	1,136	–	–	–
Contract liabilities	402,837	16,982	4,110	4,822
Other taxes payable	14,703	17,365	6,551	3,361
	498,962	151,947	160,680	177,901

Other payables and accruals mainly consist of other payables, due to related parties, accrued salaries, interest payable, rental income received in advance, contract liabilities and other taxes payable.

Other payables mainly comprised (i) payables to subcontractors in connection with constructions of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); and (ii) wastewater treatment fees collected from tap water end-users on behalf of, and payable to, the relevant local government authorities.

Other payables and accruals decreased significantly from RMB499.0 million as of 31 December 2016 to RMB151.9 million as of 31 December 2017, mainly attributable to the decrease in the contract liabilities of RMB385.8 million mainly in relation to sales of properties under our property development business due to the Mingji Demerger in 2017, partially offset by an increase in other payables of RMB37.1 million mainly because of the increase in payables for the constructions of water supply systems.

Other payables and accruals increased slightly to RMB160.7 million as of 31 December 2018, which was mainly due to the increase in other payables of RMB41.9 million, partially offset by (i) a decrease in contract liabilities of RMB12.9 million primarily as a result of the decrease in advances received from customers in 2018; (ii) a decrease in other taxes payable of RMB10.8 million in relation to the payment of Urban Maintenance Levy and Construction Levy and Education Levy ("Levies") attaching to the VAT refund for the period from December 2012 to February 2018; and (iii) a decrease in our payroll payable of RMB7.5 million as (a) certain of the bonus for our employees mainly of 2018 was paid in advance in 2018; and (b) the number of our employees decreased in 2018 mainly because of the outsourcing of some works.

Other payables and accruals increased from RMB160.7 million as of 31 December 2018 to RMB177.9 million as of 30 June 2019, which was mainly due to (i) an increase in other payables of RMB20.6 million, of which RMB13.8 million was mainly for the constructions of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), and RMB4.6 million was the payables for listing expenses in relation to the Global Offering; and (ii) an increase in the amount due to related parties of RMB2.1 million, which was related to the construction services provided by Taizhou Modern Construction during the six months ended 30 June 2019.

Deferred government grants

For the three years ended 31 December 2018, deferred government grants primarily represented the compensation made by local governments for relocations and reconstructions of certain of our raw water supply pipelines. Such grants in relation to assets would be released to profit or loss over the expected useful lives of the relevant assets. Our deferred government grants increased from RMB6.1 million as of 31 December 2016, to RMB28.9 million as of 31 December 2017 and then further to RMB36.5 million as of 31 December 2018, primarily due to the increase in the relocations and reconstruction of our raw water supply pipelines as required by the local governments.

We have made and will continue to make substantial amount of capital investment into our new projects, which would lead to a higher unit selling price of tap water in certain areas covered by our new projects. In order to reduce the cost of tap water for end-users in the areas covered by Taizhou Water Supply System (Phase IV) in the future, the People's Government of Yuhuan City entered into an agreement with Taizhou South Bay Water Supply in September 2018, pursuant to which, a total government grant of RMB400.0 million will be paid to us by the People's Government of Yuhuan City, in eight installments over the construction period of the Taizhou Water Supply System (Phase IV). The first installment of the government grant of RMB50.0 million was received in May 2019, and accordingly our deferred government grants further increased to RMB85.1 million as of 30 June 2019 from RMB36.5 million as of 31 December 2018.

CAPITAL EXPENDITURE

For the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, we paid RMB18.2 million, RMB327.8 million, RMB373.8 million and RMB350.8 million, respectively, for purchasing of property, plant and equipment, land use rights and right-of-use assets. Our capital expenditure consisted primarily of construction of projects including water supply network infrastructures and related facilities. Our capital expenditure was primarily funded by internal resources and bank and other borrowings during the Track Record Period. The following table sets out our capital expenditure for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	17,604	152,943	329,691	204,553
Prepayments for land use rights	–	9,042	2,136	–
Right-of-use assets	587	165,794	42,022	146,240
Total	18,191	327,779	373,849	350,793

We expect to pay RMB369.1 million for purchasing of property, plant and equipment and right-of-use assets for the six months ending 31 December 2019 primarily in relation to the construction of the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV). We anticipate that the funds required for such capital expenditure will be financed by cash generated from operations, government grants, bank and other borrowings and the net proceeds from the Global Offering. It should be noted that the current plan with respect to future capital expenditure may be subject to change based on the implementation of our business plan, and we may incur additional capital expenditure. We may consider raising additional funds as and when appropriate. Our ability in obtaining additional funding in the future is subject to a variety of uncertainties including, but not limited to, our further operation results, financial condition and cash flows, economic, political and other conditions in the PRC.

CAPITAL COMMITMENTS

Capital commitments

The following table sets forth our capital commitments contracted but not provided for in the financial information as of the dates indicated:

	As of 31 December			As of 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Pipelines and buildings	31,132	983,695	1,519,414	1,408,242

INDEBTEDNESS

Our debts during the Track Record Period consisted of interest-bearing bank and other borrowings including short term and long term bank borrowings and other borrowings, and lease liabilities. The table below sets out our Group's indebtedness as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current					
Current portion of long term bank loans – secured	298,000	330,000	–	–	–
Current portion of other borrowings – secured	42,801	44,171	22,786	–	–
Lease liabilities	617	1,760	19,291	5,380	5,380
	341,418	375,931	42,077	5,380	5,380
Non-current					
Bank loans – secured	668,000	355,000	417,000	735,000	803,500
Other borrowings					
Other borrowings – unsecured	30,000	–	–	–	–
Other borrowings – secured	629,496	587,156	565,000	565,000	565,000
Subtotal of other borrowings	659,496	587,156	565,000	565,000	565,000
	1,327,496	942,156	982,000	1,300,000	1,368,500
Total	1,668,914	1,318,087	1,024,077	1,305,380	1,373,880

Our bank and other borrowings decreased from RMB1,668.3 million as of 31 December 2016 to RMB1,316.3 million as of 31 December 2017, mainly due to (i) bank and other borrowings for the Continued Operations decreased from RMB1,473.3 million to RMB1,316.3 million, primarily attributable to new borrowings of RMB95.0 million and repayment of bank and other borrowings of RMB252.0 million; and (ii) bank and other borrowings for the Discontinued Operations decreased by RMB195.0 million due to (i) repayment of bank and other borrowings of RMB165.0 million; and (ii) the decrease of bank and other borrowings of RMB30.0 million due to the Mingji Demerger in 2017. The bank and other borrowings further decreased to RMB1,004.8 million as of 31 December 2018, mainly due to the new borrowings of RMB62.0 million and repayment of bank and other borrowings of RMB373.5 million. Our bank and other borrowings increased from RMB1,004.8 million as of 31 December 2018 to RMB1,300.0 million as of 30 June 2019, mainly due to the new borrowings of RMB380.0 million and repayment of bank and other borrowings RMB84.8 million.

The effective interest rates of the current portion of our secured long term bank loans ranged from 4.41% to 7.07% per annum as of 31 December 2016, and 4.90% to 5.15% per annum as of 31 December 2017. The effective interest rates of our secured non-current bank loans ranged from 5.15% to 5.40% per annum as of 31 December 2016, 4.90% to 5.15% per annum as of 31 December 2017 and 2018 and 30 June 2019. The effective interest rate of our unsecured other borrowings was 9.6% per annum as of 31 December 2016. The effective interest rates of our secured other borrowings were 2.80% and 3.09% per annum as of 31 December 2016, 2017 and 2018, and 2.80% per annum as of 30 June 2019.

Certain of our interest-bearing bank borrowings were secured by the pledges of the following assets of our Group with net carrying amounts as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Completed properties held for sale [(1)]	9,622	9,622	–	–	–
Trade receivables [(2)]	61,165	139,585	93,648	73,756	98,571
Deposits and other receivables[(3)]	13,000	13,000	13,000	–	–
Investment properties[(4)]	8,506	–	–	–	–
Total	92,293	162,207	106,648	73,756	98,571

Notes:

1. Zhejiang Mingji's completed properties held for sale, with carrying amounts of RMB9.6 million, RMB9.6 million, nil and nil as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, were pledged to secure our bank borrowings.

2. Our Group's trade receivables, with carrying amounts of RMB61.2 million, RMB139.6 million, RMB93.6 million, RMB73.8 million and RMB98.6 million as of 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019, respectively, and our rights of charge on the future revenue generated by Taizhou Water Supply System (Phase I), Taizhou Water Supply System (Phase II) and Taizhou Water Supply System (Phase III) were pledged to secure our bank borrowings.

3. Our Company's pledged deposit with approximately a carrying amount of RMB13.0 million, RMB13.0 million, RMB13.0 million and nil as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, were pledged to secure other borrowings.

4. Water Supply Hotel's investment properties, with carrying amounts of RMB8.5 million, nil, nil and nil as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively were pledged to secure our bank borrowings.

Taizhou City Water has guaranteed certain of our Group's bank loans of up to RMB500.0 million, RMB3,007.0 million, RMB3,007.0 million and RMB3,065.0 million as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Taizhou Urban Construction has guaranteed certain of our Group's bank loans of up to RMB565.0 million as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Zhejiang Mingji, has guaranteed certain of our Group's bank loans of up to RMB1,202.0 million, RMB452.0 million, RMB452.0 million and nil as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Water Supply Hotel has guaranteed certain of our Group's bank loans of up to RMB500.0 million as of 31 December 2016. Our Company has guaranteed certain of our Group's bank loans of up to RMB1,142.0 million, RMB3,899.0 million, RMB4,899.0 million and RMB5,017.0 million as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Yuhuan Water Group has guaranteed certain of our Group's bank loans of up to RMB190.0 million as of 30 June 2019.

As of 31 October 2019, being the Latest Practicable Date for purpose of indebtedness statement in this prospectus, our bank and other borrowings were RMB1,368.5 million.

As of 31 October 2019, being the Latest Practicable Date for purpose of indebtedness statement in this prospectus, we had RMB16,001.0 million of credit facilities made available to us, of which RMB803.5 million were utilised and RMB15,197.5 million were unutilised. As of 31 October 2019, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. Our lenders are mainly commercial banks in Taizhou including our principal bankers such as (i) Agricultural Bank of China, Taizhou Branch, (ii) Industrial and Commercial Bank of China and (iii) China Bank of Construction. The term of the loans are of more than 10 years with an interest rate of 2.8% or standard rate plus 5% or standard rate. Since certain of these loans were obtained by the project companies of our new water supply systems to finance their constructions within specific draw down period expressly stated in the relevant facility agreements, our Directors are of the view that there will be no material impediment for us to draw down the loan facility pursuant to the terms as agreed by the parties. Our Directors confirmed that we are able to draw down loans to fund our new water supply projects without breaching any covenants of our existing loans. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other loans, default in payment of bank loans and other loans or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors have confirmed that there were no material changes in the indebtedness of our Group since 30 June 2019 and up to the Latest Practicable Date.

Contingent liabilities

As of 30 June 2019, we had no contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial conditions taken as a whole. Our Directors have confirmed that there were no material changes in our contingent liabilities since 30 June 2019 and up to the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or any other off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in the note 38 to the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The table below sets out certain key financial ratios of our Group during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
Return on assets[(1)]	2.1%	4.8%	6.2%	4.4%
Return on equity[(2)]	13.7%	21.1%	18.6%	14.9%
Interest coverage ratio[(3)]	3.3	5.3	7.0	9.1
Interest coverage ratio (including capitalised interest expenses)[(3)]	3.3	3.6	4.4	3.3
	As of 31 December			**As of 30 June**
	2016	**2017**	**2018**	**2019**
Current ratio[(4)]	1.7	1.5	1.6	1.8
Quick ratio[(5)]	1.7	1.5	1.6	1.8
Gearing ratio[(6)]	368.3%	273.2%	155.7%	186.4%
Net debt-to-equity ratio[(7)]	185.0%	172.4%	107.0%	137.6%

Notes:

1. Return on assets equals net profit/annualised net profit for the year/period for the Continued Operations divided by the closing balance of total assets.

2. Return on equity equals net profit/annualised net profit for the year/period for the Continued Operations divided by the closing balance of total equity.

3. Interest coverage ratio equals to the profit before finance costs and income tax expenses divided by the finance costs (excluding capitalised interest expenses) for the Continued Operations for the year/period. Interest coverage ratio (including capitalised interest expenses) equals to the profit before finance costs and income tax expenses divided by the finance costs (including capitalised interest expenses) for the Continued Operations for the year/period.

4. Current ratio equals to total current assets divided by total current liabilities as of the year/period end.

5. Quick ratio equals to total current assets less inventories divided by total current liabilities as of the year/period end.

6. Gearing ratio equals to total debts divided by total equity as of the year/period end. Total debts include interest-bearing bank and other borrowings.

7. Net debt to equity equals to net debt divided by total equity as of the year/period end. Net debt equals to total debts net of cash and cash equivalents.

Return on total assets

Our return on assets was 2.1%, 4.8%, 6.2% and 4.4% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our return on total assets increased from 2.1% in 2016 to 4.8% in 2017, primarily due to the decrease in total assets of RMB880.9 million mainly attributable to the Demerger in 2017, and increase in net profit from Continued Operation in 2017. Our return on total assets further increased to 6.2% in 2018, primarily due to the decrease in total assets while increase in net profit in 2018.

Our return on total assets decreased from 6.2% for the year ended 31 December 2018 to 4.4% for the six months ended 30 June 2019, mainly attributable to the lower sales in the first half of 2019 and the increase in total assets as of 30 June 2019 primarily reflected by the additions of construction in progress and right-of-use assets, which were resulted from the constructions of the our water supply systems.

Return on equity

Our return on equity was 13.7%, 21.1%, 18.6% and 14.9% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our return on equity increased from 13.7% in 2016 to 21.1% in 2017, primarily because the increase in net profit outpaced the growth of total equity. Our net profit from Continued Operations increased by 63.9% in 2017 as compared to 2016, while our equity increased slightly by 6.4% during the same period as the net profit of 2017 was substantially offset by the equity settled from the Demerger of RMB196.5 million. Our return on equity decreased from 21.1% in 2017 to 18.6% in 2018, primarily because the increase in total equity outpaced the growth of net profit. Our net profit from Continued Operations increased by 18.3% in 2018 as compared to 2017, while our equity increased by 33.9% mainly as a result of the capital contribution by non-controlling interests of RMB40.0 million in addition to net profit of 2018.

Our return on equity decreased from 18.6% for the year ended 31 December 2018 to 14.9% for the six months ended 30 June 2019, mainly attributable to the lower sales in the first half of 2019 and the increase in our equity as of 30 June 2019 as a result of the net profit of RMB51.9 million recorded for the six months ended 30 June 2019.

Interest coverage ratio

Our interest coverage ratio was 3.3, 5.3, 7.0 and 9.1 for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our interest coverage ratio increased from 3.3 in 2016 to 5.3 in 2017, and further increased to 7.0 in 2018, primarily due to the decrease in finance costs as a result of the decrease in bank and other borrowings and the increase in profit before finance costs and income tax expenses for our Continued Operations.

Our interest coverage ratio increased from 7.0 in 2018 to 9.1 for the six months ended 30 June 2019, primarily due to the decrease in finance costs as more borrowings were used for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), and accordingly more interests on borrowings were capitalised during the six months ended 30 June 2019.

Interest coverage ratio (including capitalised interest expenses)

Our interest coverage ratio (including capitalised interest expenses) was 3.3, 3.6, 4.4 and 3.3 for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our interest coverage ratio (including capitalised interest expenses) increased from 3.3 in 2016 to 3.6 in 2017, primarily due to the increase in profit before interest and tax outpaced the increase in finance costs (including capitalised interest expenses) for our Continued Operations. Our interest coverage ratio (including capitalised interest expenses) increased from 3.6 in 2017 to 4.4 in 2018, primarily due to the increase in profit before interest and tax and the decrease in finance costs (including capitalised interest expenses) as a result of the decrease in bank and other borrowings for our Continued Operations.

Our interest coverage ratio (including capitalised interest expenses) decreased from 4.4 in 2018 to 3.3 for the six months ended 30 June 2019, primarily due to the increase in finance costs (including capitalised interest expenses) as more borrowings were borrowed for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) and the decrease in profit before interest and tax mainly attributable to the lower sales during the six months ended 30 June 2019.

Current ratio

Our current ratio was 1.7, 1.5, 1.6 and 1.8 as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our current ratio decreased from 1.7 as of 31 December 2016 to 1.5 as of 31 December 2017, primarily because the decrease in our current assets caused by a significant decrease in properties under development under the property development business and completed properties held for sale under the property development business, as a result of the Mingji Demerger. Our current ratio remained stable at 1.6 as of 31 December 2017 and 2018. Our current ratio increased from 1.6 as of 31 December 2018 to 1.8 as of 30 June 2019, primarily due to the increase in current assets of RMB6.7 million and decrease in current liabilities of RMB30.3 million primarily as a result of the repayment of interest-bearing bank and other borrowings.

Quick ratio

Our quick ratio was 1.7, 1.5, 1.6 and 1.8 as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, which was generally in line with our current ratio due to the lower level of our inventories.

Gearing ratio

Our gearing ratio was 368.3%, 273.2%, 155.7% and 186.4% as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our gearing ratio decreased from 368.3% as of 31 December 2016 to 273.2% as of 31 December 2017, primarily because of the decrease in bank and other borrowings. Our gearing ratio further decreased 155.7% as of 31 December 2018, primarily due to (i) the increase in total equity due to net profit of 2018 and capital contribution by non-controlling interests; and (ii) the decrease in our bank and other borrowings. Our gearing ratio increased from 155.7% as of 31 December 2018 to 186.4% as of 30 June 2019, mainly due to the net increase in bank and other borrowings of RMB295.2 million for the construction of our Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Net debt-to-equity ratio

Our net debt-to-equity ratio was 185.0%, 172.4%, 107.0% and 137.6% as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our net debt-to-equity ratio decreased from 185.0% as of 31 December 2016 to 172.4% as of 31 December 2017. The decrease was mainly due to that our net debt decreased only by only 0.9% as of 31 December 2017 as compared to 31 December 2016, and our total equity increased by 6.4%. Our net debt-to-equity ratio decreased from 172.4% as of 31 December 2017 to 107.0% as of 31 December 2018. This decrease was mainly because our net debt decreased by 16.9% as of 31 December 2018 as compared to 31 December 2017, while our equity recorded an increase by 33.9% during the same period because of the net profit of 2018 and capital contribution by non-controlling interests. Our net debt-to-equity ratio increased from 107.0% as of 31 December 2018 to 137.6% as of 30 June 2019, mainly due to the net increase in bank and other borrowings of RMB295.2 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Continued Operations

The table below sets out certain key financial ratios for the Continued Operations during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2016	**2017**	**2018**	**2019**
Return on assets[(1)]	2.9%	4.8%	6.2%	4.4%
Return on equity[(2)]	14.0%	20.9%	18.6%	14.9%
Interest coverage ratio[(3)]	3.3	5.3	7.0	9.1
Interest coverage ratio (including capitalised interest expenses)[(3)]	3.3	3.6	4.4	3.3

	As of 31 December			As of 30 June
	2016	**2017**	**2018**	**2019**
Current ratio[(4)]	3.1	1.5	1.6	1.8
Quick ratio[(5)]	3.1	1.5	1.6	1.8
Gearing ratio[(6)]	333.1%	270.6%	155.7%	186.4%
Net debt-to-equity ratio[(7)]	167.0%	174.0%	107.0%	137.6%

Notes:

1. Return on assets equals net profit/annualised net profit for the year/period divided by the closing balance of total assets for the Continued Operations.

2. Return on equity equals net profit/annualised net profit for the year/period divided by the closing balance of total equity for the Continued Operations.

3. Interest coverage ratio equals to the profit before finance costs and income tax expenses divided by the finance costs (excluding capitalised interest expenses) for the Continued Operations for the year/period. Interest coverage ratio (including capitalised interest expenses) equals to the profit before finance costs and income tax expenses divided by the finance costs (including capitalised interest expenses) for the Continued Operations for the year/period.

4. Current ratio equals to total current assets divided by total current liabilities as of the year/period end for the Continued Operations.

5. Quick ratio equals to total current assets less inventories divided by total current liabilities as of the year/period end for the Continued Operations.

6. Gearing ratio equals to total debts divided by total equity as of the year/period end for the Continued Operations. Total debts include interest-bearing bank and other borrowings.

7. Net debt to equity equals to net debt divided by total equity as of the year/period end for the Continued Operations. Net debt equals to total debts net of cash and cash equivalents.

Return on total assets

Our return on assets for the Continued Operations was 2.9%, 4.8%, 6.2% and 4.4% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our return on total assets for the Continued Operations increased from 2.9% in 2016 to 4.8% in 2017, primarily because our net profit increased by 63.9% in 2017, while our total assets for the Continued Operations decreased by 2.0%. Our return on total assets for the Continued Operations further increased to 6.2% in 2018, primarily due to the decrease in our total assets for the Continued Operations by 7.8% while increase in net profit by 18.3% in 2018.

Our return on total assets for the Continued Operations decreased from 6.2% for the year ended 31 December 2018 to 4.4% for the six months ended 30 June 2019, mainly attributable to the decrease in net profit as a result of the lower sales during the six months ended 30 June 2019 and the increase in total assets as of 30 June 2019 because of the construction of our water supply systems.

Return on equity

Our return on equity for the Continued Operations was 14.0%, 20.9%, 18.6% and 14.9% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our return on equity for the Continued Operations increased from 14.0% in 2016 to 20.9% in 2017, primarily as the increase in net profit outpaced the growth of total equity for the Continued Operations. Our net profit increased by 63.9% in 2017 as compared to 2016, while our equity for the Continued Operations increased by 10.0%. Our return on equity for the Continued Operations decreased from 20.9% in 2017 to 18.6% in 2018, primarily as the increase in total equity for the Continued Operations outpaced the growth of net profit. Our net profit increased by 18.3% in 2018 as compared to 2017, while our equity for the Continued Operations increased by 32.7% mainly as a result of the net profit in 2018 and capital contribution by non-controlling interests.

Our return on equity for the Continued Operations decreased from 18.6% for the year ended 31 December 2018 to 14.9% for the six months ended 30 June 2019, mainly attributable to the decrease in net profit as a result of the lower sale during the six months ended 30 June 2019 and the increase in total equity from as of 30 June 2019 due to the net profit of RMB51.9 million recorded for the six months ended 30 June 2019.

Interest coverage ratio

Our interest coverage ratio for the Continued Operations was 3.3, 5.3, 7.0 and 9.1 for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our interest coverage ratio for the Continued Operations increased from 3.3 in 2016 to 5.3 in 2017, and further increased to 7.0 in 2018, primarily due to the decrease in finance costs for the Continued Operations as a result of the decreasing balance of in bank and other borrowings for the Continued Operations and increase in profit before finance costs and income tax expenses.

Our interest coverage ratio for the Continued Operations increased from 7.0 in 2018 to 9.1 for the six months ended 30 June 2019, mainly due to the decrease in finance costs as more borrowings were used for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), and accordingly more interests on borrowings were capitalised during the six months ended 30 June 2019.

Interest coverage ratio (including capitalised interest expenses)

Our interest coverage ratio (including capitalised interest expenses) was 3.3, 3.6, 4.4 and 3.3 for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our interest coverage ratio (including capitalised interest expenses) increased from 3.3 in 2016 to 3.6 in 2017, primarily due to the increase in profit before interest and tax outpaced the increase in finance costs (including capitalised interest expenses) for our Continued Operations. Our interest coverage ratio (including capitalised interest expenses) increased from 3.6 in 2017 to 4.4 in 2018, primarily due to the increase in profit before interest and tax and the decrease in finance costs (including capitalised interest expenses) as a result of the decrease in bank and other borrowings for our Continued Operations.

Our interest coverage ratio (including capitalised interest expenses) decreased from 4.4 in 2018 to 3.3 for the six months ended 30 June 2019, primarily due to the increase in finance costs (including capitalised interest expenses) as more borrowings were borrowed for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) and the decrease in profit before interest and tax mainly attributable to the lower sales during the six months ended 30 June 2019.

Current ratio and quick ratio

Our current ratio for the Continued Operations was 3.1, 1.5, 1.6 and 1.8 as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our current ratio for the Continued Operations decreased from 3.1 as of 31 December 2016 to 1.5 as of 31 December 2017, primarily because of the decrease in current assets for the Continued Operations and increase in current liabilities for the Continued Operations. Our current ratio for the Continued Operations remained stable at 1.6 as of 31 December 2018 as compared to 31 December 2017. Our current ratio for the Continued Operations increased from 1.6 as of 31 December 2018 to 1.8 as of 30 June 2019, primarily due to the increase in current assets of RMB6.7 million and decrease in current liabilities of RMB30.3 million. Due to the nature of our Continued Operations, we generally keep a low level of inventories, and accordingly our quick ratio for the Continued Operations is the same as our current ratio for the Continued Operations.

Gearing ratio

Our gearing ratio for the Continued Operations was 333.1%, 270.6%, 155.7% and 186.4% as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our gearing ratio for the Continued Operations decreased from 333.1% as of 31 December 2016 to 270.6% as of 31 December 2017, primarily because of the decrease in interest-bearing bank and other borrowings for the Continued Operations and increase in equity for the Continued Operations. Our gearing ratio for the Continued Operations further decreased to 155.7% as of 31

December 2018, primarily due to (i) the increase in total equity for the Continued Operations due to net profit of 2018 and capital contribution by non-controlling interests; and (ii) the decrease in interest-bearing bank and other borrowings for the Continued Operations in 2018. Our gearing ratio for the Continued Operations increased from 155.7% as of 31 December 2018 to 186.4% as of 30 June 2019, mainly due to the net increase in bank and other borrowings of RMB295.2 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Net debt-to-equity ratio

Our net debt-to-equity ratio for the Continued Operations was 167.0%, 174.0%, 107.0% and 137.6% as of 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our net debt-to-equity ratio for the Continued Operations increased from 167.0% as of 31 December 2016 to 174.0% as of 31 December 2017, primarily because the increase in net debt for the Continued Operations outpaced the increase in equity for the Continued Operations. Our net debt for the Continued Operations increased by 14.6%, while our equity for the Continued Operations increased by 10.0%. Our net debt-to-equity ratio for the Continued Operations further decreased to 107.0% as of 31 December 2018. This decrease was mainly because our net debt for the Continued Operations decreased by 18.4% as of 31 December 2018 as compared to 31 December 2017, while our equity for the Continued Operations recorded an increase by 32.7% during the same period because of the net profit of 2018 and capital contribution by non-controlling interests. Our net debt-to-equity ratio for the Continued Operations increased from 107.0% as of 31 December 2018 to 137.6% as of 30 June 2019, mainly due to the net increase in bank and other borrowings of RMB295.2 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

LISTING EXPENSES

Listing expenses represent professional fees and underwriting commission incurred in connection with the Global Offering and the Listing. Assuming an Offer Price of HK$4.61 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, our total listing expenses is estimated to be HK$35.2 million, of which (i) HK$0.2 million had been charged to our profit or loss for the six months ended 30 June 2019; (ii) HK$34.1 million will be deducted from equity upon listing; and (iii) HK$0.9 million is expected to be charged to our profit or loss for the six months ending 31 December 2019. The actual amounts to be recognised to the profit or loss of our Group or to be capitalised are subject to adjustments based on audit and changes in variables and assumptions.

The listing expenses stated above are the current estimation for reference purposes and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Accordingly, prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 may be materially and adversely affected by the listing expenses mentioned above.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to "Unaudited pro forma financial information" in Appendix II in this prospectus for details.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our Group's principal financial instruments mainly comprise interest-bearing bank and other borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for our Group's operations. Our Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

For risks that we are exposed to, such as interest rate risk, credit risk and liquidity risk, please refer to note 41 to the accountant's report in Appendix I to this prospectus. Please also refer to note 41 to the Accountant's Report in Appendix I to this prospectus for details of our capital management measures to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximise shareholders' value.

DIVIDEND POLICY

During the three years ended 31 December 2018 and the six months ended 30 June 2019, we did not declare nor distribute any dividend.

In order to return capital to our Shareholders in line with our growth, we have adopted in our general dividend policy a dividend payout ratio of no less than 30% of our annual distributable net profit as determined under PRC GAAP or HKFRSs (whichever is lower) for each of the three financial years after Listing (the "**Initial Period**"). After the Initial Period, pursuant to such general dividend policy, we will determine the dividend payout ratio with reference to our results of operations, cash flows, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or HKFRSs (whichever is lower) and other factors that our Directors may consider relevant. We may declare and pay dividends by way of cash or by other means that we consider appropriate. Distribution of dividends will be decided by our Board at their discretion and will be subject to Shareholders' approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law and any other applicable law and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;

- allocation to the statutory common reserve fund an amount of no less than 10% of our profit after tax, as determined under PRC GAAP, provided that when the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocation to this statutory common reserve fund will be required; and

- allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders' meeting.

In accordance with our Articles of Association, any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years. There is, however, no assurance that we will be able to declare dividends of such an amount or any amount each year or in any year.

DISTRIBUTABLE RESERVES

As of 30 June 2019, we had a reserve of RMB353.1 million available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Except as disclosed otherwise in this prospectus, our Directors have confirmed that as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save for the listing expenses refer to "Financial information — Listing expenses" of this prospectus, to their best knowledge, our Directors confirm that since 30 June 2019, being the date of the latest audited financial statements of our Group, and up to the date of this prospectus, there has been no material adverse change in our business model, financial or trading position and prospects of the overall water supply market in Taizhou. Our Directors also confirm that there has been no events since 30 June 2019 which would materially affect the information shown in the accountants' report, the text of which is set out in Appendix I to this prospectus.

THE CORNERSTONE OFFERING

We have entered into a cornerstone investment agreement with Shanghai Yangtze River Delta Water Environment Investment Fund Limited (上海長三角水環境投資基金有限公司) (the "**Cornerstone Investor**"), pursuant to which the Cornerstone Investor has agreed to subscribe, or cause their designated entities to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for an aggregate amount of HK$52.75 million at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee) (the "**Cornerstone Offering**"):

- assuming an Offer Price of HK$5.01 (being the high-end of the Offer Price range set out in this prospectus), the total number of the H Shares to be subscribed for by the Cornerstone Investor will be 10,528,000 H Shares (rounded down to the nearest whole board lot), representing (a) approximately 21.06% of the Offer Shares and approximately 5.26% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised; and (b) representing approximately 18.31% of the Offer Shares and approximately 5.07% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is exercised in full;

- assuming an Offer Price of HK$4.61 (being the mid-point of the Offer Price range set out in this prospectus), the total number of the H Shares to be subscribed for by the Cornerstone Investor will be 11,442,000 H Shares (rounded down to the nearest board lot), representing (a) approximately 22.88% of the Offer Shares and approximately 5.72% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised; and (b) representing approximately 19.90% of the Offer Shares and approximately 5.51% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is exercised in full; and

- assuming an Offer Price of HK$4.21 (being the low-end of the Offer Price range set out in this prospectus), the total number of the H Shares to be subscribed for by the Cornerstone Investor will be 12,529,000 H Shares (rounded down to the nearest board lot), representing (a) approximately 25.06% of the Offer Shares and approximately 6.26% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised; and (b) representing approximately 21.79% of the Offer Shares and approximately 6.04% of our total issued share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is exercised in full.

The Cornerstone Investor is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holdings. It is owned as to 40%, 30% and 30% by SIIC Environment Tech (Hong Kong) Limited, Eternal Way Wealth Creation Limited and Shanghai Overseas Enterprises (BVI) Co., Ltd., respectively. SIIC Environment Tech (Hong Kong) Limited is a wholly-owned subsidiary of SIIC Environment Holdings Ltd. ("**SIIC Environment**"), which operates wastewater treatment, water supply, solid waste management and other environment-related businesses in the PRC and is dual-listed on the Stock Exchange (stock code: 0807) and Singapore Stock Exchange (stock code: BHK). Eternal Way Wealth Creation Limited is principally engaged in investment holdings. Both SIIC Environment and

Eternal Way Wealth Creation Limited are ultimately controlled by Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and an overseas conglomerate controlled by the Shanghai municipal government. Shanghai Overseas Enterprises (BVI) Co., Ltd. is a wholly-owned subsidiary of Shanghai Overseas Enterprises Corporation, a state-owned company wholly-owned by the Shanghai municipal government and is principally engaged in, among others, domestic and overseas investment management.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Cornerstone Investor and its ultimate beneficial owners is an Independent Third Party of our Company. The Cornerstone Investor has confirmed that: (i) there was no side agreement or arrangement between it and our Company or any core connected person of our Company or any benefit, direct or indirect, conferred on it by virtue of or in relation to the Cornerstone Offering; (ii) the Cornerstone Offering was not directly or indirectly financed by our Company or any core connected person of our Company; and (iii) it was not accustomed to take any instructions from our Company or any core connected person of our Company in relation to the acquisition, disposal, voting or any other disposition of securities of our Company. To the best knowledge of our Company and as confirmed by the Cornerstone Investor, the source of funding for the Cornerstone Offering was from its internal resources.

The subscription of the Offer Shares by the Cornerstone Investor forms part of the International Offering. The H Shares to be subscribed for by the Cornerstone Investor will be counted towards the public float of our Company and will rank *pari passu* with the H Shares then in issue and to be listed on the Hong Kong Stock Exchange.

The Offer Shares to be delivered to the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering or any exercise of the Over-allotment Option, as further described in "Structure and conditions of the Global Offering" of this prospectus.

The Cornerstone Investor (a) will not subscribe for any Offer Shares pursuant to the Global Offering, other than pursuant to the cornerstone investment agreement; (b) does not have any preferential rights compared with other public Shareholders in the cornerstone Investment agreement; and (c) immediately following the completion of the Global Offering, will not have any Board representation in our Company, nor will it become a substantial shareholder or a connected person of our Company.

CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investor is subject to, among other things, the following conditions precedent:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into, become effective and having become unconditional and not having been terminated (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) by no later than the time and date as respectively specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;

(b) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering and that such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(c) no laws having been enacted or promulgated by any governmental authority (as defined in the cornerstone agreement) which prohibit the consummation of the transactions contemplated under the Global Offering or under the cornerstone investment agreement and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of the transactions contemplated under the Global Offering or under the cornerstone investment agreement; and

(d) the respective representations, warranties and confirmations of the Cornerstone Investor and, as the case may be, our Company are (as of the date of the cornerstone investment agreement) and will be (as of the closing date) accurate and true and not misleading and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor and, as the case may be, our Company.

OTHER CIRCUMSTANCES

Pursuant to the cornerstone investment agreement, the Sole Global Coordinator may defer the delivery of all or any part of the H Shares it has subscribed for to a date later than the Listing Date. Regardless of the above arrangement of the deferred delivery of such Shares, the Cornerstone Investor is nevertheless under an obligation to pay for the number of the H Shares to be subscribed for by it in the International Offering as set out in "The Cornerstone Offering" above in accordance with the cornerstone investment agreement at or before 9:00 a.m. (Hong Kong time) on the second Business Day before the Listing Date.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that, it will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the H Shares to be subscribed pursuant to the cornerstone investment agreement (the "**Relevant Shares**") or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

FUTURE PLANS

Business objectives

Please refer to "Business — Business strategies" of this prospectus for a description of our business strategies and future plans.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, and assuming an Offer Price of HK$4.61 per Offer Share, being the mid-point of the indicative Offer Price range of HK$4.21 to HK$5.01 and the Over-allotment Option is not exercised) are HK$195.3 million. We intend that the net proceeds from the Global Offering will be applied for the following purposes:

- HK$175.8 million, representing 90.0% of the net proceeds for the construction of the Taizhou Water Supply System (Phase III); and

- the remaining amount of HK$19.5 million, representing 10.0% of the net proceeds will be used to provide funding for our working capital and other general corporate purposes.

The additional net proceeds that we will receive if the Over-allotment Option is exercised in full will be HK$33.4 million (assuming the Offer Price at the mid-point of the stated Offer Price range of HK$4.61). If the Over-allotment Option is exercised in full, our Directors intend to apply all the additional net proceeds for the above uses on a pro rata basis.

If the Offer Price is fixed at HK$5.01, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by HK$19.3 million, assuming the Over-allotment Option is not exercised; and (ii) increased by HK$55.6 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to use such additional proceeds for the above uses in the proportions stated above.

If the Offer Price is fixed at HK$4.21, being the low end of the stated Offer Price range, our net proceeds will instead be decreased by HK$19.3 million, assuming the Over-allotment Option is not exercised. Such decrease in the net proceeds will not have material impact on our Group's expansion plans as we intend to fund such shortfall with our internal resources.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to affect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong for so long as it is in our best interests. We will comply with the appropriate disclosure requirements under the Listing Rules if there is any material change in the use of proceeds as described above.

REASONS FOR LISTING

Our Directors believe that it is essential for our Group's persistent growth in the future by implementing our business strategies as set out in "Business — Our business strategies" of this prospectus. The following are the major reasons for our application for the Listing:

The Listing is encouraged by local government policy, and the Listing will offer us the access to the capital market and other fund-raising alternatives to raise fund for future expansion

In February 2018, the People's Government of Taizhou issued the Implementation of the Encouragement of Listings and Mergers and Acquisitions of Enterprises — "Phoenix Plan" (台州市推進企業上市和併購重組「鳳凰計劃」實施方案), the local government of Taizhou encourages enterprises to further develop and expand through listing and mergers and acquisitions, with an aim to have access to the capital market and other alternative methods of fund-raising.

In light of the supportive local government policy, our Directors considered that the Listing would benefit our Group. Through the Listing, not only can we raise funds from the Global Offering and apply them to the above uses, we believe that being a listed company would provide us alternatives including access to capital market for future secondary fund raising for our further expansion plans as and when necessary through the issuance of equity and/or debt securities. Our Group will be able to gradually adjust to an optimal capital structure, which can consist of a mixture of debt and equity-financing, to minimise our reliance on debt financing.

Our Directors are also of the view that the Listing will provide our Group with the platform to access the Hong Kong equity market both at the time of Listing with an one-off Listing expenses and at later stages after Listing for further expansion plans and business strategies as and when necessary through the issuance of equity and/or debt securities, with relatively lower financing cost as compared with banking facilities as can be obtained by a private company. It is also anticipated that as a listed company, we will be able to obtain banking facilities at better conditions as compared with a non-listed company in Taizhou. Our Directors believe that the potential benefits of the Listing would ultimately outweigh the Listing costs as well as the cost of debt financing in the long run.

Based on the Frost & Sullivan Report, one of the drivers for raw water and municipal water supply market is growing private sector investment and funding, in particular, since 2014, the PRC Government has introduced an official definition of Public-Private-Partnership ("PPP") and a series of laws and policies were formulated to promote the PPP model in water supply and treatment industry. As a listed company, we are able to consider raising funds by equity, debt financing or other secondary fund-raising activities, such as placing and rights issue. We can pursue the most cost-effective fund-raising method. As such, we would be more readily accessible to capital and therefore are well positioned to further expand our business including the participation of any appropriate PPP projects.

Our reliance on bank loans will increase our risk exposure to high gearing ratio cost and other risks, and as a listed company places us in a better position to obtain more favourable terms from banks

Our business and operations require substantial funding and initial capital investment for our projects and we have heavily relied upon bank borrowings for our operations. As of 31 December 2016, 2017, 2018 and 30 June 2019, our total outstanding interest-bearing bank and other borrowings in relation to the Continued Operations was RMB1,473.3 million, RMB1,316.3 million, RMB1,004.8 million and RMB1,300.0 million, respectively, and our corresponding gearing ratio was 333.1%, 270.6%, 155.7% and 186.4%, respectively. For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, our interest expenses were RMB38.3 million, RMB47.0 million, RMB42.5 million and RMB24.3 million, respectively.

Reliance on banking facility exposes our Group to high gearing ratio and other risks. In view of the high gearing ratio of our Group, our financial performance and liquidity may be adversely affected if market uncertainty suddenly rose, such as increase in interest rates and any sudden unexpected deterioration in the prevailing market conditions leading to the imposition of further requirements on debt financing. Moreover, the amount of banking facility and borrowings available are subject to factors including government policy and bank's internal credit policy. With banking facility and borrowings as the only means of obtaining funds for our operations, we are vulnerable to any change in the interest rates, government policy and bank's internal credit policy on debt financing. There is no assurance that we can continue to obtain banking facility and borrowings at similar level in the future, or that we will be able to secure bank or other borrowings at commercially acceptable terms at all. In the event that we fail to obtain bank or other borrowings or the terms of the bank or other borrowings are less favourable to us, our business operations, financial condition and results of operations may be materially and adversely affected.

Our Directors believe that the Listing will minimise the above potential risks of our heavy reliance on bank and other borrowings to finance our operations because as a listed company, we are in a position to expose other alternative ways of fund-raisings. In addition, based on our communications with our major lending banks, they generally offer more favourable terms of loans granted to a listed company.

Enhance our corporate profile, credibility and competitiveness and increase our awareness of governance and internal control

We believe that a public listing status on the Main Board of the Stock Exchange a complimentary advertising for our Group to public and can enhance our corporate profile and our credibility with the public and business partners. All of these in turn will strengthen our competitiveness and provide us more leverage in future business negotiations. A listing status also offers our Company a broader shareholder base which could potentially lead to a more liquid market in the trading of the Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the Listing.

HONG KONG UNDERWRITERS

Innovax Securities Limited

China Everbright Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 5,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) as mentioned herein and (ii) certain other conditions set forth in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company agreeing on the Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions or amounts (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering, on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice (orally or in writing) given to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

(a) there shall develop, occur or come into force:

  (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiaries or any other similar event; or

(ii) any material change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiaries or any other similar event; or

(iii) without prejudice to sub-paragraph (i) of paragraph (a) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange; or

(iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, riots, public disorder, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident); or

(v) any material change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the PRC or any other jurisdiction(s) to which any member of our Group is subject or the implementation of any exchange controls; or

(vi) any material litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group; or

(vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in Hong Kong, the PRC or any other jurisdiction(s) relevant to our Company and our subsidiaries; or

(viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any members of our Group or any Director; or

(ix) order or petition for the winding up of any members of our Group or any composition or arrangement made by any members of our Group with its creditors or a scheme of arrangement entered into by any members of our Group or any resolution for the winding up of any members of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any members of our Group or anything analogous thereto occurring in respect of any members of our Group;

which, individually, or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

(i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or

(ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or

(iii) makes it inadvisable or impracticable to proceed with the Global Offering; or

(iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

(b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the covenantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material; or

(c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any material breach on the part of our Company or any of the covenantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its opinion to be material to the Global Offering; or

(d) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which have been approved by our Company to be issued or used by or on behalf of our Company in connection with the Global Offering (collectively, the "**Offer Documents**"), which in the opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

(e) matters have arisen or have been discovered which would, if the Offer Documents was to be issued at that time, constitute, in the opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission of such information; or

(f) there is any material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of our Group which in the opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material; or

(g) the approval of the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Offer Shares under the Global Offering is refused or not granted, other than subject to customary conditions, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or

(i) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(j) there comes to the notice of the Sole Global Coordinator or any of the Underwriters any information, matter or event which in the opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters): (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form H) given by any Directors pursuant to the Global Offering; or (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings 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 within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or in the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction

Each of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction has undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering (including the Over-allotment Option), it will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

(a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares in respect of which 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 period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be a substantial shareholder of our Company for the purposes of the Listing Rules.

Each of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its shareholdings is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

(a) when it pledges or charges any Shares beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in (a) and (b) above by Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Each of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction has given an undertaking to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction will, and will procure that none of their respective close associates will:

(i) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six Month Period**"), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or publicly announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(ii) during the period of six months commencing on the date on which the First Six Month Period expires and including, the date that is six months after the end of the First Six Month Period (the "**Second Six Month Period**"), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a substantial shareholder (as the term is defined in the Listing Rules) of our Company; and

(iii) until the expiry of the Second Six Month Period, in the event that it enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the First Six Month Period, our Company undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each member of our Group not to, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or

(iv) offer to or agree to or publicly announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or publicly 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 our Company, Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction and executive Directors undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph. Each of our Company, Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction and executive Directors undertakes to and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), no company in our Group will during the First Six Month Period purchase any securities of our Company.

Without prejudice to the above, each of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction undertakes and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that:

(i) save with the prior written consent from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and to the extent as allowed under the Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction is made in this prospectus and ending on the date which is 12 months from the Listing Date, shall not and shall procure that none of its close associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by it or any of its close associates or in which it or any of its close associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or securities of or interest in our Company arising or deriving therefrom as a result of scrip dividend or otherwise) or any share or interest in any company controlled by it or any of its close associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of scrip dividend or otherwise); and

(ii) in the event that notification is given to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when it or any of its close associates shall pledge, charge or create any encumbrance or other right in any of the Shares or interests referred to in (i) above, it shall give prior written notice of not less than two Business Days to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the "**Mortgagee**") in favour of whom the pledge, charge, encumbrance or interest is created and further if it or any of its close associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in (i) above, it will immediately notify the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.

Our Company undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that our Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after our Company has been informed of the matters referred to in paragraph (ii) above and our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters and the Sole Global Coordinator. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will, severally and not jointly, agree to subscribe for or purchase, or procure subscribers or purchasers for, the International Offer Shares being offered pursuant to the International Offering.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator for itself and on behalf of the International Underwriters, at any time before the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 7,500,000 additional H Shares, representing 15% of the number of the H Shares initially available under the Global Offering at the Offer Price (plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% of the Offer Price) to cover over-allocations, if any, in the International Offering.

Commission and expenses

The Hong Kong Underwriters will receive a commission of 2.8% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. In addition, we may, at our discretion, pay to the Underwriters an incentive fee of up to 3.1% of the aggregate Offer Price of the Offer Shares initially offered under the Global Offering.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to HK$35.2 million in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-allotment Option is not exercised).

Hong Kong Underwriters' interests in our Company

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Global Offering (the "**Syndicate Members**") and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own accounts and for the account of others. In relation to our H Shares, other activities could include acting as agent for buyers and sellers of our H Shares, entering into transactions with other buyers and sellers in a principal capacity, proprietary trading in our H Shares, and entering into over-the-counter or listing derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying, assets including our H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their underlying, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of other securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and these will also result in hedging activity in our H Shares in most cases.

These activities may affect the market price or value of our H Shares, the liquidity or trading volume in our H Shares, and the volatility of our Share price, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other then the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

(a) the Hong Kong Public Offering of 5,000,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described in "The Hong Kong Public Offering" below; and

(b) the International Offering of 45,000,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) to professional, institutional investors and other investors as described in "The International Offering" below.

The Offer Shares will represent 25.0% of the enlarged issued share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.71% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set forth in "International Underwriting Agreement" above.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in "— The Hong Kong Public Offering — Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of H Shares Initially Offered

Our Company is initially offering 5,000,000 H Shares at the Offer Price under the Hong Kong Public Offering, representing 10.0% of the 50,000,000 H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of H Shares initially offered under the Hong Kong Public Offering will represent 2.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered H Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

Allocation

For allocation purposes only, the 5,000,000 H Shares initially being offered under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A comprising 2,500,000 Hong Kong Offer Shares and Pool B comprising 2,500,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B. Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL-91-18 require a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering under certain circumstances.

The initial allocation of Offer Shares under the Hong Kong Public Offering shall not be less than 10% of the Global Offering. In the event of full or over-subscription in both the Hong Kong Public Offering and the International Offering, the Sole Global Coordinator shall apply a clawback mechanism following the closing of application lists on the following basis:

(a) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Sole Global Coordinator, in its absolute discretion, may (but shall not be obliged to) reallocate up to 5,000,000 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will increase to 10,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK$4.21 per Offer Share (being the low-end of the Offer Price range stated in this prospectus);

(b) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 15,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

(c) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 20,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

(d) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 25,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In the event of undersubscription in the International Offering but full or over-subscription in the Hong Kong Public Offering, the Sole Global Coordinator, in its absolute discretion, may (but shall not be obliged to) reallocate up to 5,000,000 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 10,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK$4.21 per Offer Share (being the low-end of the Offer Price range stated in this prospectus).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

However, if neither the Hong Kong Public Offering nor the International Offering is fully subscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Multiple or suspected multiple applications and any application for more than 50% of the 5,000,000 H Shares initially comprised in the Hong Kong Public Offering (that is 2,500,000 Hong Kong Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$5.01 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Pricing and allocation" below is less than the maximum price of HK$5.01 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to apply for the Hong Kong Offer Shares" of this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of International Offer Shares Offered

The number of International Offer Shares to be initially offered under the International Offering will be 45,000,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 22.5% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Reallocation

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in "The Hong Kong Public Offering — Reallocation" above, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator at its sole and absolute discretion for itself and on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require our Company to issue and allot up to an aggregate of 7,500,000 H Shares representing in aggregate 15% of the initial number of the Offer Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. The Sole Global Coordinator may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws and regulations.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 20 December 2019 and, in any event, not later than Monday, 23 December 2019.

The Offer Price will be not more than HK$5.01 and is currently expected not to be less than HK$4.21, 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. If, for any reason, the Offer Price is not agreed by Monday, 23 December 2019 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.**

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Friday, 20 December 2019, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Hong Kong Stock Exchange's website at **www.hkexnews.hk**, and on our Company's website at **www.zjtzwater.com** notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set forth in "Summary" of 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 Offer Price, if agreed upon with our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this prospectus.

Before submitting applications for the Hong Kong Offer Shares, 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.

In the event of a reduction in the Offer Shares and/or indicative Offer Price range, applicants who have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering will be entitled withdraw their applications unless positive confirmation from the applicants to proceed are received.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Sole Global Coordinator. The reallocation of the Offer Shares shall be in compliance with Guidance Letter GL91-18 issued by the Stock Exchange.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Monday, 30 December 2019 through a variety of channels as described in "How to apply for the Hong Kong Offer Shares — 11. Publication of results" of this prospectus.

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 any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager and/or its affiliates or any person acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of H Shares will be affected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of Shares that may be issued and/or sold under the Over-allotment Option, namely 7,500,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H 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 H

Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H 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 H Shares for the sole purpose of preventing or minimising any reduction in the market price of the H Shares; (v) selling or agreeing to sell any H Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

(a) the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares;

(b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

(c) liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the H Shares;

(d) no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Sunday, 19 January 2020, 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 H Shares, and therefore the price of the Shares, could fall;

(e) the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and

(f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 7,500,000 H Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date.

We expect that our Company will, on or around determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in "Underwriting" of this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, inter alia:

- the Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) (subject only to allotment and dispatch of the H Share certificates in respect thereof and such other normal conditions acceptable to our Company and the Sole Global Coordinator, for itself and on behalf of the Underwriters) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;

- our Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;

- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, for itself and on behalf of the Underwriters) 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 respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

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. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in "How to apply for the Hong Kong Offer Shares" of this prospectus. In the meantime, the application monies will be held in separate bank account(s)

with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

H Share certificates for the Offer Shares are expected to be issued on or before Monday, 30 December 2019 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Tuesday, 31 December 2019, 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 H Shares prior to the receipt of H Share certificates or prior to the H Share certificates bearing valid certificates of title do so entirely at their own risk.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 31 December 2019, it is expected that dealings in H Shares on the Stock Exchange will commence on Tuesday, 31 December 2019. Our H Shares will be traded in board lots of 1,000 H Shares each. The stock code of our Company is 1542.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong 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 Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong 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); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions its thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of any Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our 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 our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**

For Hong Kong 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 Tuesday, 17 December 2019 until 12:00 noon on Friday, 20 December 2019 from:

(i) the following offices of the Hong Kong Underwriters:

Innovax Securities Limited	Unit A-C, 20/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong
China Everbright Securities (HK) Limited	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

(ii) any of the following branches of **CMB Wing Lung Bank Limited**:

District	Branch name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central, Central, Hong Kong
	Kennedy Town Branch	28 Catchick Street, Kennedy Town, Hong Kong
	North Point Branch	361 King's Road, North Point, Hong Kong
	Aberdeen Branch	201 Aberdeen Main Road, Aberdeen, Hong Kong
Kowloon	Mongkok Branch	Basement, CMB Wing Lung Bank Centre, 636 Nathan Road, Mongkok, Kowloon

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 17 December 2019 until 12:00 noon on Friday, 20 December 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**CMB WING LUNG (NOMINEES) LIMITED—TAIZHOU WATER GROUP CO., LTD. PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 17 December 2019 – 9:00 a.m. to 5:00 p.m.
Wednesday, 18 December 2019 – 9:00 a.m. to 5:00 p.m.
Thursday, 19 December 2019 – 9:00 a.m. to 5:00 p.m.
Friday, 20 December 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 20 December 2019, the last application day or such later time as described in "10. Effect of bad weather and Extreme Conditions 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 **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance, the Company Law, the Special Regulations and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Global Coordinator, the 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 International Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator 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 (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our 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 are eligible 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 our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) 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 (b) 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 SERVICE

General

Individuals who meet the criteria in "2. Who can apply" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for submitting applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 17 December 2019 until 11:30 a.m. on Friday, 20 December 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 20 December 2019 or such later time under the "10. Effects of bad weather and Extreme Conditions 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 to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different payment 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 or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Commitment to Sustainability

The obvious advantage of White Form eIPO is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Taizhou Water Group Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**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
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our H Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (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 our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (WUMP) Ordinance, the Company Law, the Special Regulations and the Articles of Association;

- agree with our Company, for itself and for the benefit of each Shareholder and each director, supervisor, manager and other senior officer of our Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with our Company (for itself and for the benefit of each Shareholder) that H Shares in our Company are freely transferable by their holders;

- authorise our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his or her obligations to Shareholders stipulated in the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong 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 initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 17 December 2019	**–**	**9:00 a.m. to 8:30 p.m.**
Wednesday 18 December 2019	**–**	**8:00 a.m. to 8:30 p.m.**
Thursday, 19 December 2019	**–**	**8:00 a.m. to 8:30 p.m.**
Friday, 20 December 2019	**–**	**8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 17 December 2019 until 12:00 noon on Friday, 20 December 2019 (24 hours daily, except on Friday, 20 December 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 20 December 2019, the last application day or such later time as described in "Effect of bad weather and Extreme Conditions on the opening of the Application Lists" in this section.

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance.

Personal data

The section of the Application Form headed "Personal data" applies to any personal data held by our Company, the H Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator 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 will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 20 December 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the 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 HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for H 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 in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details of the Offer Price, please see "Structure and conditions of the Global Offering — Pricing and allocation" of this prospectus.

10. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS 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;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 December 2019. 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 or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 20 December 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected timetable" of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 30 December 2019 on our Company's website at **www.zjtzwater.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.zjtzwater.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, 30 December 2019;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment)** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 30 December 2019 to 12:00 midnight on Sunday, 5 January 2020;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 30 December 2019 to Thursday, 2 January 2020;

- in the special allocation results booklets which will be available for inspection during opening hours on Monday, 30 December 2019, Tuesday, 31 December 2019 and Thursday, 2 January 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For further details of the conditions of the Global Offering, please see "Structure and conditions of the Global Offering" of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with 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 Companies (WUMP) Ordinance (as applied by Section 342E of the 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 our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service 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 dishonored upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Sole Global Coordinator believe(s) 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 Hong Kong 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$5.01 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 and conditions of the Global Offering — Conditions of the Global Offering" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 30 December, 2019.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong 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 H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong 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 Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price 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 before Monday, 30 December 2019. 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 Tuesday, 31 December 2019 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" 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 Hong Kong 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 our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 30 December 2019 or such other date as notified by us in the newspapers.

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 H 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 dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 30 December 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 30 December 2019, 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 Monday, 30 December 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 30 December 2019 or any other date as determined by HKSCC or HKSCC Nominees.

Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 30 December 2019, or such other date as notified by our Company in the newspapers as the date of dispatch/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 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 30 December 2019 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 dispatched 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 dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit 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 Monday, 30 December 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of results" above on Monday, 30 December 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 30 December 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 30 December 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong 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 Monday, 30 December 2019.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Taizhou Water Group Co., Ltd.
Sinolink Securities (Hong Kong) Company Limited

Dear Sirs,

We report on the historical financial information of Taizhou Water Group Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-107, which comprises 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 2016, 2017 and 2018, and the six months ended 30 June 2019 (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 2016, 2017 and 2018 and 30 June 2019, and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-107 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 17 December 2019 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

17 December 2019

I HISTORICAL FINANCIAL INFORMATION

PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CONTINUING OPERATIONS						
REVENUE	*5*	410,053	462,901	504,263	243,288	225,786
Cost of sales		(270,846)	(277,805)	(306,986)	(149,628)	(135,045)
Gross profit		139,207	185,096	197,277	93,660	90,741
Other income and gains	*5*	17,174	21,274	27,370	18,748	7,889
Administrative expenses		(30,235)	(34,979)	(34,672)	(17,930)	(19,121)
Other expenses		(588)	(548)	(2,560)	(2,159)	(427)
Finance costs	*7*	(38,258)	(32,484)	(26,628)	(16,696)	(8,719)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*6*	87,300	138,359	160,787	75,623	70,363
Income tax expense	*10*	(25,270)	(36,690)	(40,537)	(19,034)	(18,474)
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS		62,030	101,669	120,250	56,589	51,889
DISCONTINUED OPERATIONS						
Profit/(loss) for the year/period from discontinued operations	*11*	42,457	123,747	3,248	(829)	–
PROFIT FOR THE YEAR/PERIOD AND OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		104,487	225,416	123,498	55,760	51,889
Attributable to:						
Owners of the parent		82,461	179,997	110,450	49,447	46,340
Non-controlling interests		22,026	45,419	13,048	6,313	5,549
		104,487	225,416	123,498	55,760	51,889
Earnings per share attributable to ordinary equity holders of the parent	*13*					
Basic and diluted (RMB)						
– For profit for the year/period		0.55	0.95	0.74	0.33	0.31
– For profit from continuing operations		0.35	0.47	0.72	0.34	0.31

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	649,236	748,992	1,037,070	1,273,948
Investment properties	*15*	47,494	–	–	–
Prepayments for property, plant and equipment		–	14,554	46,780	33,334
Prepayments for land use rights		51,486	60,528	62,664	53,788
Investment in an associate	*16*	25,000	50,000	59,600	104,600
Financial assets at fair value through profit or loss		10	–	–	–
Deferred tax assets	*29*	59,262	19,864	21,358	21,243
Right-of-use assets	*18*	64,461	221,750	264,045	385,544
Deposits and other receivables	*23*	13,000	13,000	–	–
Total non-current assets		909,949	1,128,688	1,491,517	1,872,457
CURRENT ASSETS					
Properties under development	*19*	827,230	–	–	–
Completed properties held for sale	*20*	269,234	–	–	–
Inventories	*21*	3,966	4,167	4,213	4,391
Trade receivables	*22*	125,447	164,979	109,190	85,975
Prepayments, other receivables and other assets	*23*	34,280	324,996	18,982	20,741
Pledged bank deposits	*24*	–	10,829	14,877	16,693
Cash and cash equivalents	*24*	830,163	485,785	314,398	340,591
Total current assets		2,090,320	990,756	461,660	468,391
CURRENT LIABILITIES					
Trade payables	*25*	286,338	85,444	68,471	60,378
Other payables and accruals	*26*	498,962	151,947	160,680	177,901
Interest-bearing bank and other borrowings	*27*	340,801	374,171	22,786	–
Deferred government grants	*28*	329	1,902	2,725	2,725
Lease liabilities	*18*	617	1,760	19,291	5,380
Tax payable		86,496	52,113	17,003	14,298
Total current liabilities		1,213,543	667,337	290,956	260,682
NET CURRENT ASSETS		876,777	323,419	170,704	207,709
TOTAL ASSETS LESS CURRENT LIABILITIES		1,786,726	1,452,107	1,662,221	2,080,166

	Notes	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		1,786,726	1,452,107	1,662,221	2,080,166
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	*27*	1,327,496	942,156	982,000	1,300,000
Deferred government grants	*28*	5,739	26,962	33,758	82,357
Other liabilities		508	1,110	1,086	543
Total non-current liabilities		1,333,743	970,228	1,016,844	1,382,900
Net assets		452,983	481,879	645,377	697,266
EQUITY					
Equity attributable to owners of the parent					
Share capital	*30*	149,130	150,000	150,000	150,000
Reserves	*31*	198,329	259,239	369,689	416,029
		347,459	409,239	519,689	566,029
Non-controlling interests		105,524	72,640	125,688	131,237
Total equity		452,983	481,879	645,377	697,266

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent						
	Share capital	Capital reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000 (note 30)	*RMB'000 (note 31)*	*RMB'000 (note 31)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	149,130	16,913	34,879	64,076	264,998	83,498	348,496
Profit for the year and total comprehensive income for the year	–	–	–	82,461	82,461	22,026	104,487
Transfer to statutory surplus reserve	–	–	2,559	(2,559)	–	–	–
At 31 December 2016 and 1 January 2017	149,130	16,913	37,438	143,978	347,459	105,524	452,983
Profit for the year and total comprehensive income for the year	–	–	–	179,997	179,997	45,419	225,416
Transfer to share capital *(note 30(a))*	68,600	–	–	(68,600)	–	–	–
Derecognition of subsidiaries *(note 32)*	(67,730)	–	–	(50,487)	(118,217)	(78,303)	(196,520)
Transfer to statutory surplus reserve	–	–	3,975	(3,975)	–	–	–
At 31 December 2017 and 1 January 2018	150,000	16,913	41,413	200,913	409,239	72,640	481,879
Profit for the year and total comprehensive income for the year	–	–	–	110,450	110,450	13,048	123,498
Capital contribution by non-controlling shareholders	–	–	–	–	–	40,000	40,000
Transfer to statutory surplus reserve	–	–	4,605	(4,605)	–	–	–
At 31 December 2018 and 1 January 2019	150,000	16,913	46,018	306,758	519,689	125,688	645,377
Profit for the period and total comprehensive income for the period	–	–	–	46,340	46,340	5,549	51,889
At 30 June 2019	150,000	16,913	46,018	353,098	566,029	131,237	697,266

	Attributable to owners of the parent						
	Share capital	Capital reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000 (note 30)	*RMB'000 (note 31)*	*RMB'000 (note 31)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017 and 1 January 2018	150,000	16,913	41,413	200,913	409,239	72,640	481,879
Profit for the period and total comprehensive income for the period (unaudited)	–	–	–	49,447	49,447	6,313	55,760
Capital contribution by non-controlling shareholders (unaudited)	–	–	–	–	–	20,000	20,000
At 30 June 2018 (unaudited)	150,000	16,913	41,413	250,360	458,686	98,953	557,639

* These reserve accounts comprise the consolidated reserves of RMB198,329,000, RMB259,239,000, RMB369,689,000 and RMB416,029,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax:						
From continuing operations		87,300	138,359	160,787	75,623	70,363
From discontinued operations	*11*	94,443	186,855	4,086	(725)	–
Adjustments for:						
Interest income from loans to related parties	*5*	–	(6,629)	(6,384)	(6,384)	–
Gain on disposal of items of property, plant and equipment		(239)	(250)	(902)	(4)	(14)
Gain on disposal of subsidiaries	*32*	–	–	(4,955)	–	–
Gain on disposal of financial assets at fair value through profit or loss	*5*	–	(143)	–	–	–
Finance costs	*7, 11*	64,552	46,266	26,628	16,696	8,719
Depreciation of property, plant and equipment		73,670	67,009	67,062	32,673	26,570
Depreciation of investment properties	*15*	3,423	1,492	–	–	–
Depreciation of right-of-use assets		2,201	4,309	4,648	2,326	3,041
Provision for impairment of investment properties	*15*	719	–	–	–	–
Amortisation of government grants	*28*	(328)	(1,213)	(2,705)	(1,343)	(1,401)
Write-down of completed properties held for sale	*20*	(321)	–	–	–	–
Impairment of trade receivables	*22*	461	736	120	890	696
Impairment of other receivables	*23*	351	27	266	53	2
		326,232	436,818	248,651	119,805	107,976
Decrease in properties under development		141,991	754,709	–	–	–
Increase in completed properties held for sale		(271,672)	(364,855)	–	–	–
Increase in inventories		(1,022)	(201)	(46)	(953)	(178)
(Increase)/decrease in trade receivables		(91,754)	(41,516)	49,217	15,632	22,520
Decrease/(increase) in prepayments, other receivables and other assets		39	(7,427)	(3,515)	(718)	(13,774)
Decrease in investment properties		40,960	21,456	–	–	–
Increase/(decrease) in trade payables		236,650	(42,412)	(12,567)	(19,615)	(8,093)
Increase/(decrease) in other payables and accruals		115,217	(247,918)	(19,466)	(28,180)	3,608
Increase in deferred government grants		–	24,009	10,324	10,324	50,000
Increase/(decrease) in other liabilities		508	602	(24)	(205)	(543)
Cash generated from operations		497,149	533,265	272,574	96,090	161,516
Income tax paid		(42,290)	(63,898)	(78,448)	(56,936)	(22,051)
Net cash flows from operating activities		454,859	469,367	194,126	39,154	139,465

	Notes	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(17,604)	(152,943)	(329,691)	(92,072)	(204,553)
Increase in prepayment for land use rights		–	(9,042)	(2,136)	–	–
Additions to investment properties		–	(273)	–	–	–
Prepayments for right-of-use assets		(587)	(165,794)	(42,022)	(9,593)	(146,240)
Purchase of additional interest in an associate		–	(25,000)	(9,600)	–	(45,000)
Proceeds from disposal of items of property, plant and equipment		828	593	1,455	62	85
Proceeds from disposal of financial assets at fair value through profit or loss		–	153	–	–	–
Proceeds from disposal of subsidiaries	*32*	–	–	7,857	–	–
Increase in pledged deposits		–	(10,829)	(4,048)	(24)	(1,816)
Interests received from loan to related parties		–	6,629	7,131	7,131	–
Repayment of loans to related parties		–	96,000	320,000	320,000	–
Cash outflow arising from derecognition of subsidiaries	*32*	–	(168,617)	–	–	–
Net cash flows from/(used in) investing activities		(17,363)	(429,123)	(51,054)	225,504	(397,524)
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital contribution from non-controlling interests		–	–	40,000	20,000	–
New borrowings		660,000	95,000	62,000	–	380,000
Repayment of bank and other borrowings		(413,644)	(416,970)	(373,541)	(261,439)	(71,786)
Interest paid	*33*	(73,139)	(62,652)	(42,918)	(24,819)	(23,962)
Net cash flows from/(used in) financing activities		173,217	(384,622)	(314,459)	(266,258)	284,252
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		610,713	(344,378)	(171,387)	(1,600)	26,193

	Note	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		610,713	(344,378)	(171,387)	(1,600)	26,193
Cash and cash equivalents at beginning of year/period		219,450	830,163	485,785	485,785	314,398
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		830,163	485,785	314,398	484,185	340,591
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalent as stated in the consolidated statements of financial position and consolidated statements of cash flows	*24*	830,163	485,785	314,398	484,185	340,591

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	268,175	258,630	243,905	234,798
Prepayments for property, plant and equipment		–	–	216	1,915
Investments in subsidiaries	*17*	349,516	285,652	334,240	334,240
Investment in an associate	*16*	25,000	50,000	59,600	104,600
Deferred tax assets	*29*	1,061	4,232	5,560	5,451
Right-of-use assets	*18*	7,820	8,218	7,849	7,665
Deposits and other receivables	*23*	13,000	13,000	–	–
Total non-current assets		664,572	619,732	651,370	688,669
CURRENT ASSETS					
Inventories	*21*	627	586	312	247
Trade receivables	*22*	56,993	75,066	51,321	43,409
Prepayments, other receivables and other assets	*23*	189,948	609,950	578,774	576,295
Cash and cash equivalents	*24*	600,923	48,474	42,497	37,666
Total current assets		848,491	734,076	672,904	657,617
CURRENT LIABILITIES					
Trade payables	*25*	101,427	81,309	67,804	59,969
Other payables and accruals	*26*	360,732	325,256	310,803	345,349
Interest-bearing bank and other borrowings	*27*	96,801	44,171	22,786	–
Deferred government grants	*28*	–	990	1,813	1,813
Tax payable		8,393	14,443	1,882	–
Total current liabilities		567,353	466,169	405,088	407,131
NET CURRENT ASSETS		281,138	267,907	267,816	250,486
TOTAL ASSETS LESS CURRENT LIABILITIES		945,710	887,639	919,186	939,155

	Notes	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		945,710	887,639	919,186	939,155
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	*27*	629,496	587,156	565,000	565,000
Deferred government grants	*28*	–	11,718	19,426	18,481
Other liabilities		508	1,038	984	492
Total non-current liabilities		630,004	599,912	585,410	583,973
Net assets		315,706	287,727	333,776	355,182
EQUITY					
Share capital	*30*	149,130	150,000	150,000	150,000
Reserves	*31*	166,576	137,727	183,776	205,182
Total equity		315,706	287,727	333,776	355,182

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No.308, Yin Quan Road Xicheng Street, Huang Yan District, Taizhou, Zhejiang Province, PRC.

During the Relevant Periods, the Company and its subsidiaries (together, the "Group") are principally engaged in supplying raw water, municipal water and tap water directly to end-users and the installation of the water pipelines for distributing tap water to end-users, property development and leasing businesses, and landscape and construction business. As further explained in note 11, the Group's property development and leasing business, and the landscape and construction business had been discontinued since 11 October 2017 and 15 November 2018, respectively.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Taizhou City Water Co., Ltd. ("Taizhou City Water") (台州城市水務有限公司) *(a), (c)*	PRC/Mainland China 30 September 2003	RMB220,000,000	82	–	Centralised water production and supply
Wenling Zeguo Water Supply Co., Ltd. ("Wenling Zeguo Water Supply") (溫嶺市澤國自來水有限公司) *(a), (c)*	PRC/Mainland China 9 November 2006	RMB30,000,000	100	–	Centralised water supply; pipeline installation service
Taizhou Environmental Development Co., Ltd. ("Taizhou Environmental Development") (台州市環境發展有限公司) *(b), (c)*	PRC/Mainland China 5 September 2018	RMB10,000,000	100	–	Dormant
Taizhou South Bay Water Supply Co., Ltd. ("Taizhou South Bay Water Supply") (台州市南部灣區水務有限公司) *(b), (c)*	PRC/Mainland China 13 March 2018	RMB100,000,000	60	–	Centralised water production and supply
Taizhou Binhai Water Co., Ltd. ("Binhai Water") (台州市濱海水務有限公司) *(a), (c)*	PRC/Mainland China 7 June 2016	RMB100,000,000	51	49	Centralised water production and supply

The following subsidiaries had been derecognised or disposed of during the Relevant Periods, which were included in the discontinued operations (note 11):

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Zhejiang Mingji Real Estate Co., Ltd. ("Zhejiang Mingji") (浙江銘基置業有限公司)	PRC/Mainland China 5 June 2000	RMB118 million	62.8	–	Real estate development and management
Wenling Mingcheng Real Estate Co., Ltd. ("Wenling Mingcheng") (溫嶺銘誠置業有限公司)	PRC/Mainland China 10 September 2013	RMB50 million	–	100	Real estate development and management
Zhenjiang Tenglong Real Estate Co., Ltd. ("Zhenjiang Tenglong") (鎮江騰龍置業有限公司)	PRC/Mainland China 28 May 2002	RMB14.25 million	–	100	Real estate development and management
Zhenjiang Mingji Real Estate Co., Ltd. ("Zhenjiang Mingji") (鎮江銘基置業有限公司)	PRC/Mainland China 17 January 2005	RMB50 million	–	100	Real estate development and management
Water Supply Building Hotel Co., Ltd. ("Water Supply Hotel") (供水大廈酒店有限公司)	PRC/Mainland China 15 December 2002	RMB40 million	100	–	Accommodation service
Taizhou Modern Construction and Engineering Co., Ltd. ("Taizhou Modern Construction") (台州現代工程建設有限公司)	PRC/Mainland China 5 September 2000	RMB5.18 million	100	–	Construction and installation
Zhejiang Taizhou Landscape Engineering Co., Ltd. ("Zhejiang Taizhou Landscape") (浙江省台州市園林綠化工程有限公司)	PRC/Mainland China 28 June 1993	RMB10 million	100	–	Design, construction and maintenance of landscape engineering

Notes:

(a) The statutory financial statements of these entities for the years or periods ended 31 December 2016, and for the years ended 31 December 2017 and 2018 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

(b) The statutory financial statements of these entities for the period ended 31 December 2018 prepared under PRC GAAP were audited by Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

(c) The English names of these entities registered in the PRC represent the best efforts made by management of the Company to directly translate their Chinese names as they do not register any official English names.

Prior to 25 August 2017, the Group carried out property development businesses through PRC subsidiaries, namely Zhejiang Mingji Real Estate Co., Ltd. ("Zhejiang Mingji), Wenling Mingcheng Real Estate Co., Ltd. ("Wenling Mingcheng"), Zhenjiang Tenglong Real Estate Co., Ltd. ("Zhenjiang Tenglong"), Zhenjiang Mingji Real Estate Co., Ltd. ("Zhenjiang Mingji") and Water Supply Building Hotel Co., Ltd. ("Water Supply Hotel"). These PRC subsidiaries are grouped under a new entity, namely Taizhou Development Investment Co., Ltd. ("Taizhou Development"), which was formed by the shareholders of the Company established for the derecognition process. The transaction was completed on 11 October 2017.

Pursuant to an equity transfer agreement on 7 November 2018, the Company agreed to transfer 100% equity interests of Zhejiang Taizhou Landscape Engineering Co., Ltd. ("Zhejiang Taizhou Landscape") and Taizhou Modern Construction and Engineering Co., Ltd. ("Taizhou Modern Construction") to Taizhou Development. The transaction was completed on 15 November 2018.

Further details of the above derecognition and transfers are included in note 11.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, including HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and its Amendments, and HKFRS 16 *Leases*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and the six months ended 30 June 2018.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiaries for the Relevant Periods. 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 are stated at cost less any impairment losses.

The financial information of the subsidiaries are prepared for the same reporting period 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 Company 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 above. 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.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs which are expected to be applicable to the Group is described below.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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 an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investments in associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of an associate are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associate is classified as non-current asset and is 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 HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. 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 statements 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 statements 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 reporting period.

Impairment of non-financial assets (including right-of-use assets)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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) 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);

  (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); and

  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 HKFRS 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 estimated useful lives of property, plant and equipment are as follows:

Buildings	10 - 35 years
Pipelines	15 - 20 years
Machinery and equipment	5 - 20 years
Computer and office equipment	3 - 10 years
Motor vehicles	4 - 6 years
Leasehold improvements	3 years

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 to 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. Such 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 property to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	20-30 years

Leases

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories", "properties under development" and "completed properties held for sale". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term ranged from 2 years to 50 years. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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:

Financial assets at amortised cost (debt investments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income to profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised to profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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 statement 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 risk 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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, payables, 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 and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other 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 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.

Properties under development

Properties under development are stated at cost which includes all development expenditures, including land costs, interest charges and other costs directly attributable to such properties.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle.

Properties under development are valued at the lower of cost and net realisable value at the end of each of the Relevant Periods and any excess of cost over the net realisable value of an individual item of properties under development is accounted for as a provision. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value at the end of each of the Relevant Periods. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statements 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 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 end of reporting period 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.

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 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 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:

(a) where 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

(b) in respect of taxable temporary differences associated with investments in subsidiaries, 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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) when the deferred tax asset relating to the deductible temporary difference 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

(b) in respect of deductible temporary differences associated with investments in subsidiaries, 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 the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of water

Revenue from the sale of water is recognised at the point in time when control of the water is transferred to the customer, generally on delivery of the water.

(b) Installation services

The Group provides installation services that are sold separately to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the industrial products.

Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The input method recognises revenue on the basis of the actual cost expended relative to the total expected cost to complete the service.

(c) Sale of properties

Revenue from the sale of properties is recognised at the point in time when control of the properties is transferred to the customer, generally on delivery of the properties.

(d) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Incremental costs of obtaining a contract were those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g., commission to sales agents. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Employee benefits

Pension scheme

The Group participates in the central pension schemes as defined by the laws of the countries in which it has operations.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2.55% and 3.47% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make significant 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.

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 described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculation and payments with the tax authorities for all its property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact on the LAT expenses and the related provision in the period in which the differences realise.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The details of the provision for expected credit losses of trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019 are set out in note 22 to the Historical Financial Information.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 29 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group only has one reportable operating segment which is water supply and installation of water pipelines. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographic information

(a) Revenue from external customers

During the Relevant Periods, the Group operated within one geographical area as all of the Group's revenue was generated from customers located in Mainland China.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the Relevant Periods and the six months ended 30 June 2018 is set out below:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer 1	123,253	129,383	136,825	63,666	63,822
Customer 2	92,969	111,088	123,417	61,354	54,419
Customer 3	79,593	87,995	97,118	45,827	45,197
Customer 4	N/A*	51,082	56,125	30,332	N/A*

* The corresponding revenue from the customer is not disclosed as the revenue did not individually account for 10% or more of the Group's revenue for the respective year/period.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from continuing operations is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue from contracts with customers	410,053	462,901	504,263	243,288	225,786

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Type of goods or services					
Sale of water	403,968	456,465	497,333	241,407	221,833
Installation services	6,085	6,436	6,930	1,881	3,953
Total revenue from contracts with customers	410,053	462,901	504,263	243,288	225,786
Timing of revenue recognition					
Goods transferred at a point in time	403,968	456,465	497,333	241,407	221,833
Services transferred over time	6,085	6,436	6,930	1,881	3,953
Total revenue from contracts with customers	410,053	462,901	504,263	243,288	225,786

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current *(note 26(b))*	402,837	16,982	4,110	4,822

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The amount was included in "Other payables and accruals" in the consolidated statements of financial position.

(i) Significant changes in contract liabilities

The changes in the contract liabilities are mainly attributable to the short-term advances received to transfer goods to customers and satisfaction of performance obligations.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Relevant Periods and the six months ended 30 June 2018 that was included in the contract liabilities at the beginning of the Relevant Periods and the six months ended 30 June 2018.

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	103,293	402,837	16,982	16,982	4,110

(c) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of water

The performance obligation is satisfied upon delivery of the water and payment is generally due within two months.

Installation services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of installation and customer acceptance.

The following table shows the unsatisfied performance obligations as at 31 December 2016, 2017 and 2018 and 30 June 2019.

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	6,534	5,838	479	6,664

The amount disclosed above do not include variable consideration which is constrained. The unsatisfied performance obligations are expected to be satisfied within one year.

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	924	532	1,574	847	585
Interest income from loans to related parties	–	6,629	6,384	6,384	–
Government grants	–	3,000	5,584	5,340	765
Value added tax refund	14,119	8,727	11,550	5,482	6,471
Others	1,893	2,023	1,452	690	54
	16,936	20,911	26,544	18,743	7,875
Gains					
Gain on disposal of financial assets at fair value through profit or loss	–	143	–	–	–
Gain on disposal of items of property, plant and equipment	238	220	826	5	14
	238	363	826	5	14
	17,174	21,274	27,370	18,748	7,889

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of inventories sold*	267,419	273,354	302,530	148,401	132,240
Cost of services provided	3,427	4,451	4,456	1,227	2,805
Depreciation of property, plant and equipment	71,901	65,643	66,884	32,576	26,570
Depreciation of right-of-use assets	2,037	4,181	4,630	2,326	3,041
Impairment of trade receivables, net	318	488	45	305	696
Impairment/(reversal of impairment) of financial assets included in prepayments, other receivables, and other assets	–	(1)	–	52	3
Government grants**	–	(3,000)	(5,584)	(5,340)	(765)
Auditor's remuneration	231	745	850	–	–
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration *(note 8)*):					
Wages and salaries	45,581	46,233	40,410	21,827	21,817
Pension scheme contributions	7,560	7,745	7,374	3,811	3,104
Staff welfare expenses	6,047	5,918	5,382	2,471	2,125
	59,188	59,896	53,166	28,109	27,046
Gain on disposal of items of property, plant and equipment	(238)	(220)	(826)	(5)	(14)
Gain on disposal of financial assets at fair value through profit or loss	–	(143)	–	–	–
Listing expenses	–	–	–	–	201

* The cost of inventories sold includes RMB110,684,000, RMB104,848,000, RMB102,319,000 and RMB43,900,000, relating to staff costs, depreciation of property, plant and equipment, and depreciation of right-of-use assets for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, which are also included in the respective total amounts disclosed above for each type of expenses.

** The government grants mainly represent compensation by the local governments to support the Group's operation in Taizhou City, the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank borrowings	30,903	26,443	24,307	15,114	16,253
Interest on other borrowings	7,355	20,533	18,179	9,400	8,054
Less: Interest capitalised	–	(14,492)	(15,858)	(7,818)	(15,588)
	38,258	32,484	26,628	16,696	8,719

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fees	184	202	205	105	101
Other emoluments:					
Salaries, allowances and benefits in kind	1,723	1,787	1,748	984	993
Pension scheme contributions	40	56	99	51	56
	1,763	1,843	1,847	1,035	1,049
	1,947	2,045	2,052	1,140	1,150

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods and the six months ended 30 June 2018 were as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Zheng Jianzhuang	34	41	41	21	21
Zheng Jindu (i)	41	31	–	–	–
Xin Jinguo (ii)	27	41	14	14	–
Cai Ning (ii)	41	41	14	14	–
Guan Xiaoyong (ii)	41	41	14	14	–
Hou Meiwen	–	7	41	21	21
Lin Suyan	–	–	27	7	21
Guo Bin (iii)	–	–	27	7	17
Wang Yongyue	–	–	27	7	21
Li Wai Chung (iv)	–	–	–	–	–
	184	202	205	105	101

Notes:

(i) Zheng Jindu retired in October 2017.

(ii) Xin Jinguo, Cai Ning and Guan Xiaoyong retired in May 2018.

(iii) Guo Bin retired in June 2019.

(iv) Li Wai Chung was appointed as an independent non-executive director in June 2019.

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods and the six months ended 30 June 2018.

(b) Executive directors, non-executive directors and supervisors

	Salaries allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2016			
Executive directors:			
Yan Chuanhua	488	10	498
Zhang Junzhou*	488	10	498
	976	20	996
Non-executive directors:			
Yang Yide	19	–	19
Zhu Ping	19	–	19
Wang Haiping	–	–	–
Zheng Ranhan	–	–	–
Fang Ya	–	–	–
Chen Zhongfa	–	–	–
Ye Jianhua	–	–	–
Ye Yayuan (v)	–	–	–
	38	–	38
Supervisors:			
Chen Guojun	381	10	391
Guan Liping (iii)	328	10	338
Lin Genman (ii)	–	–	–
Cao Yingji (i)	–	–	–
Zhang Lugang (ii)	–	–	–
	709	20	729
	1,723	40	1,763

	Salaries allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Executive directors:			
Yan Chuanhua	513	14	527
Zhang Junzhou*	513	14	527
	1,026	28	1,054
Non-executive directors:			
Yang Yide	19	–	19
Zhu Ping	19	–	19
Wang Haiping	–	–	–
Zheng Ranhan	–	–	–
Fang Ya	–	–	–
Chen Zhongfa	–	–	–
Ye Jianhua	–	–	–
Ye Yayuan [(v)]	–	–	–
	38	–	38
Supervisors:			
Chen Guojun	391	14	405
Guan Liping [(iii)]	332	14	346
Cao Yingji [(i)]	–	–	–
Lu Huaping	–	–	–
Yu Changcheng	–	–	–
Lin Genman [(ii)]	–	–	–
Gao Huiqian [(iv)]	–	–	–
Zhang Lugang [(ii)]	–	–	–
	723	28	751
	1,787	56	1,843

	Salaries allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2018			
Executive directors:			
Yan Chuanhua	420	23	443
Zhang Junzhou*	418	23	441
	838	46	884
Non-executive directors:			
Yang Yide	19	–	19
Zhu Ping [(x)]	14	–	14
Guo Dingwen [(vi)]	3	–	3
Wang Haiping	–	–	–
Zheng Ranhan	–	–	–
Fang Ya	–	–	–
Chen Zhongfa	–	–	–
Ye Jianhua	–	–	–
Huang Yuyan [(v)]	–	–	–
	36	–	36
Supervisors:			
Chen Guojun	381	23	404
Guan Liping [(iii)]	115	7	122
Zheng Jing [(vii)]	378	23	401
Lu Huaping	–	–	–
Yu Changcheng	–	–	–
Gao Huiqian [(iv)]	–	–	–
Lin Ying [(vii)]	–	–	–
	874	53	927
	1,748	99	1,847

	Salaries allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Six months ended 30 June 2018 (unaudited)			
Executive directors:			
Yan Chuanhua	261	12	273
Zhang Junzhou*	261	12	273
	522	24	546
Non-executive directors:			
Yang Yide	10	–	10
Zhu Ping [(x)]	10	–	10
Wang Haiping	–	–	–
Zheng Ranhan [(xi)]	–	–	–
Fang Ya	–	–	–
Chen Zhongfa [(xi)]	–	–	–
Ye Jianhua	–	–	–
Huang Yuyan [(v)]	–	–	–
	20	–	20
Supervisors:			
Chen Guojun	197	12	209
Guan Liping [(iii)]	115	7	122
Zheng Jing [(vii)]	130	8	138
Lu Huaping	–	–	–
Yu Changcheng	–	–	–
Gao Huiqian [(iv)]	–	–	–
	442	27	469
	984	51	1,035

	Salaries allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Six months ended 30 June 2019			
Executive directors:			
Yan Chuanhua	253	13	266
Zhang Junzhou*	253	13	266
	506	26	532
Non-executive directors:			
Yang Yide	10	–	10
Xu Hailong (viii)	69	4	73
Guo Dingwen (vi)	10	–	10
Wang Haiping	–	–	–
Zheng Ranhan (xi)	–	–	–
Fang Ya	–	–	–
Chen Zhongfa (xi)	–	–	–
Ye Jianhua	–	–	–
Huang Yuyan (v)	–	–	–
Wang Haibo (ix)	–	–	–
Yu Yangbin (ix)	–	–	–
	89	4	93
Supervisors:			
Chen Guojun	199	13	212
Zheng Jing (vii)	199	13	212
Lu Huaping	–	–	–
Yu Changcheng	–	–	–
Lin Ying (vii)	–	–	–
	398	26	424
	993	56	1,049

* Mr. Zhang Junzhou is the chief executive of the Company during the Relevant Periods and the six months ended 30 June 2018.

(i) Cao Yingji retired in March 2017.

(ii) Lin Genman and Zhang Lugang retired in July 2017.

(iii) Guan Liping retired in March 2018.

(iv) Gao Huiqian was appointed as a supervisor in March 2017 and retired in October 2018.

(v) Ye Yayuan retired as a non-executive director and Huang Yuyan was appointed as a non-executive director in March 2017.

(vi) Guo Dingwen was appointed in October 2018.

(vii) Zheng Jing and Lin Ying were appointed as supervisors in March 2018 and October 2018, respectively.

(viii) Xu Hailong was appointed as a non-executive director in February 2019 and retired in June 2019.

(ix) Yu Yangbin and Wang Haibo were appointed as non-executive directors in January 2019 and in June 2019, respectively.

(x) Zhu Ping retired in October 2018.

(xi) Zheng Ranhan and Chen Zhongfa retired in February 2019 and January 2019, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2018.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods and the six months ended 30 June 2018 are as follows:

	Year ended 31 December 2016	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	1,763	1,413	1,103	637	620
Pension scheme contributions	18	42	68	36	38
	1,781	1,455	1,171	673	658

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December 2016	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
				(unaudited)	
Nil to HKD1,000,000	3	3	3	3	3

10. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

During the Relevant Periods and the six months ended 30 June 2018, except for Taizhou Environmental Development which was entitled to a preferential income tax rate of 10% for small and micro enterprises, the provision for current income tax in Mainland China is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

According to the requirements of the provisional regulations of the PRC on the land appreciation tax ("LAT") effective from 1 January 1994 onwards, and the detailed implementation rules on the provisional regulations of the PRC on LAT effective from 27 January 1995 onwards, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

The income tax expense of the Group is analysed as follows:

	Year ended 31 December 2016	**Year ended 31 December 2017**	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax – Mainland China					
Charge for the year/period	41,536	64,366	42,869	21,534	18,359
Deferred tax *(note 29)*	(5,399)	13,607	(1,494)	(2,396)	115
LAT tax expense	41,119	21,825	–	–	–
Total tax charge for the year/period from continuing operations	25,270	36,690	40,537	19,034	18,474
Total tax charge for the year/period from discontinued operations	51,986	63,108	838	104	–
	77,256	99,798	41,375	19,138	18,474

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2016		Year ended 31 December 2017		Year ended 31 December 2018	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax from continuing operations	87,300		138,359		160,787	
Profit before tax from discontinued operations	94,443		186,855		4,086	
	181,743		325,214		164,873	
Tax at the statutory tax rate of 25% in Mainland China	45,436	25.0	81,304	25.0	41,218	25.0
Provision of LAT expense	41,119	22.6	21,825	6.7	–	–
Tax effect of LAT provision	(10,280)	(5.7)	(5,456)	(1.7)	–	–
Income not subject to tax	–	–	–	–	(419)	(0.3)
Effect of non-deductible expenses	1,487	0.8	2,089	0.6	1,124	0.7
Tax losses not recognised	3,360	1.9	2,316	0.8	659	0.4
Tax losses utilised from previous periods	(4,974)	(2.7)	(2,305)	(0.7)	(1,218)	(0.7)
Temporary differences not recognised	1,108	0.6	25	–	11	–
Tax charge at the Group's effective rate	77,256	42.5	99,798	30.7	41,375	25.1
Tax charge from continuing operations at the effective rate	25,270	28.9	36,690	26.5	40,537	25.2
Tax charge from discontinued operations at the effective rate	51,986	55.0	63,108	33.8	838	20.5

	Six months ended 30 June 2018		Six months ended 30 June 2019	
	RMB'000 (unaudited)	*%*	*RMB'000*	*%*
Profit before tax from continuing operations	75,623		70,363	
Loss before tax from discontinued operation	(725)		–	
	74,898		70,363	
Tax at the statutory tax rate of 25% in Mainland China	18,724	25.0	17,591	25.0
Effect of non-deductible expenses	737	1.0	254	0.4
Tax losses not recognised	378	0.5	629	0.9
Tax losses utilised from previous periods	(848)	(1.1)	–	–
Temporary differences not recognised	147	0.2	–	–
Tax charge at the Group's effective rate	19,138	25.6	18,474	26.3
Tax charge from continuing operations at the effective rate	19,034	25.2	18,474	26.3
Tax charge from discontinued operation at the effective rate	104	(14.3)	–	–

11. DISCONTINUED OPERATIONS

(i) Pursuant to the replacement of business licence issued on 25 August 2017, the Company derecognised the property development and leasing business by transferring five non-wholly owned PRC subsidiaries ("Property Development and Leasing Business") , namely Zhejiang Mingji (an immediate holding company of three subsidiaries) and Water Supply Hotel (the "Derecognition") to a new company formed by the Company's shareholders. As a result of the Derecognition, the registered capital of the Company was reduced from RMB217,730,000 to RMB150,000,000. Accordingly, Taizhou Development was formed by the shareholders of the Company on 28 August 2017 and then became the immediate holding company of these five PRC subsidiaries. The Derecognition was completed on 11 October 2017.

(ii) On 7 November 2018, the Company transferred its entire interest in Zhejiang Taizhou Landscape and Taizhou Modern Construction to Taizhou Development, which are principally engaged in the construction of public work and the landscape business ("Landscape and Construction Business") for considerations of RMB7,020,000 and RMB12,670,000 , respectively. The disposal of Zhejiang Taizhou Landscape and Taizhou Modern Construction was completed on 15 November 2018.

The results of the discontinued operations for the Relevant Periods are presented below:

	Landscape and Construction Business	**Property Development and Leasing Business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2016			
Revenue	18,896	212,651	231,547
Cost of sales	(17,131)	(178,130)	(195,261)
Gross profit	1,765	34,521	36,286
Other income and gains	80	124,822	124,902
Selling and distribution expenses	–	(15,356)	(15,356)
Administrative expenses	(2,380)	(17,825)	(20,205)
Other expenses	(26)	(4,864)	(4,890)
Finance costs	–	(26,294)	(26,294)
Profit before tax from the discontinued operations	(561)	95,004	94,443
Income tax expense *(Note 10)*	(19)	(51,967)	(51,986)
Profit for the year from discontinued operations	(580)	43,037	42,457
Attributable to:			
Owners of the parent	(580)	31,280	30,700
Non-controlling interests	–	11,757	11,757
	(580)	43,037	42,457

	Landscape and Construction Business	Property Development and Leasing Business	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Revenue	13,030	640,383	653,413
Cost of sales	(11,203)	(476,309)	(487,512)
Gross profit	1,827	164,074	165,901
Other income and gains	93	63,890	63,983
Selling and distribution expenses	–	(11,305)	(11,305)
Administrative expenses	(2,785)	(12,489)	(15,274)
Other expenses	(5)	(2,663)	(2,668)
Finance costs	–	(13,782)	(13,782)
Profit before tax from the discontinued operations	(870)	187,725	186,855
Income tax expense *(note 10)*	374	(63,482)	(63,108)
Profit for the year from discontinued operations	(496)	124,243	123,747
Attributable to:			
Owners of the parent	(496)	92,200	91,704
Non-controlling interests	–	32,043	32,043
	(496)	124,243	123,747

	Landscape and Construction Business
	RMB'000
Year ended 31 December 2018	
Revenue	13,872
Cost of sales	(12,369)
Gross profit	1,503
Other income and gains	5,116
Selling and distribution expenses	–
Administrative expenses	(2,531)
Other expenses	(2)
Profit before tax from discontinued operation	4,086
Income tax expense *(note 10)*	(838)
Profit for the year from discontinued operation	3,248
Attributable to:	
Owners of the parent	3,248
Non-controlling interests	–
	3,248
Six months ended 30 June 2018 (unaudited)	
Revenue	10,490
Cost of sales	(9,247)
Gross profit	1,243
Other income and gains	54
Administrative expenses	(2,022)
Loss before tax from discontinued operation	(725)
Income tax expense *(note 10)*	(104)
Loss for the period from discontinued operation	(829)
Attributable to:	
Owners of the parent	(829)
Non-controlling interests	–
	(829)

The net cash flows incurred by the discontinued operations are as follows:

	Landscape and Construction Business	Property Development and Leasing Business	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2016			
Operating activities	(2,463)	226,669	224,206
Investing activities	(329)	73	(256)
Financing activities	–	(194,497)	(194,497)
Net cash (outflow)/inflow	(2,792)	32,245	29,453

	Landscape and Construction Business	Property Development and Leasing Business	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Operating activities	11,020	284,917	295,937
Investing activities	(439)	(967)	(1,406)
Financing activities	–	(209,331)	(209,331)
Net cash inflow	10,581	74,619	85,200

	Landscape and Construction Business
	RMB'000
Year ended 31 December 2018	
Operating activities	(4,224)
Investing activities	47
Financing activities	–
Net cash outflow	(4,177)

	Landscape and Construction Business
	RMB'000
Six months ended 30 June 2018 (unaudited)	
Operating activities	(8,379)
Investing activities	64
Financing activities	–
Net cash outflow	(8,315)

The calculations of basic and diluted earnings per share from the discontinued operations are as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
				(unaudited)	
Earnings per share:					
– Basic and diluted, from discontinued operations (RMB)	0.21	0.48	0.02	(0.01)	–
Profit/(loss) attributable to ordinary equity holders of the parent from discontinued operations (RMB)	30,700,000	91,704,000	3,248,000	(829,000)	–
Weighted average number of ordinary shares in issue during the relevant periods	149,130,000	189,356,000	150,000,000	150,000,000	150,000,000

The Group's profit/(loss) before tax from discontinued operations is arrived at after charging/(crediting):

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of properties sold	178,130	476,309	–	–	–
Cost of services provided	17,131	11,203	12,369	9,247	–
Depreciation of property, plant and equipment	1,769	1,366	198	97	–
Depreciation of right-of-use assets	164	128	18	–	–
Impairment of trade receivables, net	143	248	75	585	–
Impairment of financial assets included in prepayments, other receivables and other assets	351	28	266	1	–
Auditor's remuneration	126	167	61	–	–
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration *(note 8)*):					
Wages and salaries	10,328	7,788	1,372	1,043	–
Pension scheme contributions	1,311	919	186	66	–
Staff welfare expenses	1,532	1,605	267	107	–
	13,171	10,312	1,825	1,216	–
Gain on disposal of items of property, plant and equipment	(1)	(38)	(76)	1	–
Gain on disposal of investment properties	(110,712)	(56,122)	–	–	–
Gain on disposal of subsidiaries	–	–	(4,955)	–	–

12. DIVIDENDS

No dividend was declared and paid by the Company in respect of the Relevant Periods.

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

The calculation of the basic earnings per share amounts is based on the profit for the Relevant Periods and the six months ended 30 June 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2018.

There were no potentially dilutive ordinary shares in issue during the Relevant Periods and the six months ended 30 June 2018 and therefore no adjustment has been made to the basic earnings per share amounts presented in respect of a dilution.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Earnings					
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:					
From continuing operations	51,761	88,293	107,202	50,304	45,558
From discontinued operations *(note 11)*	30,700	91,704	3,248	(829)	–
	82,461	179,997	110,450	49,475	45,558

	Number of shares				
	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
				(unaudited)	
Shares					
Weighted average number of ordinary shares in issue during the Relevant Periods used in the basic and diluted earnings per share calculation	149,130,000	189,356,000	150,000,000	150,000,000	150,000,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016								
At 1 January 2016:								
Cost	418,343	614,304	253,802	53,959	20,011	–	2,026	1,362,445
Accumulated depreciation	(137,514)	(322,926)	(165,221)	(41,845)	(17,389)	–	–	(684,895)
Net carrying amount	280,829	291,378	88,581	12,114	2,622	–	2,026	677,550
At 1 January 2016, net of accumulated depreciation	280,829	291,378	88,581	12,114	2,622	–	2,026	677,550
Additions	248	–	973	1,261	1,339	501	27,497	31,819
Transfers from completed properties held for sale *(note 20)*	14,166	–	–	–	–	–	–	14,166
Disposals	(391)	–	(26)	(30)	(142)	–	–	(589)
Depreciation provided during the year	(22,555)	(25,981)	(20,774)	(3,459)	(816)	(125)	–	(73,710)
At 31 December 2016, net of accumulated depreciation	272,297	265,397	68,754	9,886	3,003	376	29,523	649,236
At 31 December 2016:								
Cost	431,583	614,304	253,898	54,234	20,456	501	29,523	1,404,499
Accumulated depreciation	(159,286)	(348,907)	(185,144)	(44,348)	(17,453)	(125)	–	(755,263)
Net carrying amount	272,297	265,397	68,754	9,886	3,003	376	29,523	649,236

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017								
At 1 January 2017:								
Cost	431,583	614,304	253,898	54,234	20,456	501	29,523	1,404,499
Accumulated depreciation	(159,286)	(348,907)	(185,144)	(44,348)	(17,453)	(125)	–	(755,263)
Net carrying amount	272,297	265,397	68,754	9,886	3,003	376	29,523	649,236
At 1 January 2017, net of accumulated depreciation	272,297	265,397	68,754	9,886	3,003	376	29,523	649,236
Additions	–	–	1,157	1,406	1,753	699	179,742	184,757
Capitalisation of depreciation of right-of-use assets *(note 18)*	–	–	–	–	–	–	1,927	1,927
Transfers from completed properties held for sale *(note 20)*	4,347	–	–	–	–	–	–	4,347
Disposals	(4)	(275)	(4)	(22)	(38)	–	–	(343)
Derecognition of subsidiaries *(note 32)*	(21,325)	–	(61)	(434)	(1,250)	(699)	–	(23,769)
Depreciation provided during the year	(21,750)	(21,601)	(19,126)	(3,591)	(811)	(284)	–	(67,163)
Transfers	1,550	21,949	9,790	–	–	–	(33,289)	–
At 31 December 2017, net of accumulated depreciation	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
At 31 December 2017:								
Cost	413,784	632,719	264,034	53,157	11,973	138	177,903	1,553,708
Accumulated depreciation	(178,669)	(367,249)	(203,524)	(45,912)	(9,316)	(46)	–	(804,716)
Net carrying amount	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018								
At 1 January 2018:								
Cost	413,784	632,719	264,034	53,157	11,973	138	177,903	1,553,708
Accumulated depreciation	(178,669)	(367,249)	(203,524)	(45,912)	(9,316)	(46)	–	(804,716)
Net carrying amount	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
At 1 January 2018, net of accumulated depreciation	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
Additions	783	–	2,566	3,311	6,935	264	330,768	344,627
Capitalisation of depreciation of right-of-use assets *(note 18)*	–	–	–	–	–	–	12,610	12,610
Disposals	(26)	(14)	(100)	(55)	(358)	–	–	(553)
Disposal of subsidiaries *(note 32)*	(522)	–	(2)	(41)	(447)	(37)	–	(1,049)
Depreciation provided during the year	(20,906)	(22,362)	(19,648)	(3,468)	(1,105)	(68)	–	(67,557)
Transfers	3,063	2,125	–	734	–	–	(5,922)	–
At 31 December 2018, net of accumulated depreciation	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
At 31 December 2018:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	–	(858,114)
Net carrying amount	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2019								
At 1 January 2019:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	–	(858,114)
Net carrying amount	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
At 1 January 2019, net of accumulated depreciation	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
Additions	187	–	1,213	991	752	–	244,212	247,355
Capitalisation of depreciation of right-of-use assets *(note 18)*	–	–	–	–	–	–	16,665	16,665
Disposals	–	(39)	(30)	–	(2)	–	–	(71)
Depreciation provided during the period	(10,680)	(10,970)	(3,349)	(1,132)	(896)	(44)	–	(27,071)
Transfers	–	2,828	–	–	–	–	(2,828)	–
At 30 June 2019, net of accumulated depreciation	207,014	237,038	41,160	7,585	7,536	207	773,408	1,273,948
At 30 June 2019:								
Cost	416,394	635,923	263,453	56,176	11,226	266	773,408	2,156,846
Accumulated depreciation	(209,380)	(398,885)	(222,293)	(48,591)	(3,690)	(59)	–	(882,898)
Net carrying amount	207,014	237,038	41,160	7,585	7,536	207	773,408	1,273,948

Company

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016							
At 1 January 2016:							
Cost	79,641	528,198	72,536	15,509	6,397	2,026	704,307
Accumulated depreciation	(30,313)	(296,929)	(58,796)	(12,796)	(5,474)	–	(404,308)
Net carrying amount	49,328	231,269	13,740	2,713	923	2,026	299,999
At 1 January 2016, net of accumulated depreciation	49,328	231,269	13,740	2,713	923	2,026	299,999
Additions	247	–	206	421	266	3,635	4,775
Disposals	(391)	–	(26)	(23)	–	–	(440)
Transfers to subsidiaries	–	–	–	–	–	(3,699)	(3,699)
Depreciation provided during the year	(4,242)	(21,846)	(5,133)	(867)	(372)	–	(32,460)
At 31 December 2016, net of accumulated depreciation	44,942	209,423	8,787	2,244	817	1,962	268,175
At 31 December 2016:							
Cost	78,714	528,198	71,865	15,172	6,663	1,962	702,574
Accumulated depreciation	(33,772)	(318,775)	(63,078)	(12,928)	(5,846)	–	(434,399)
Net carrying amount	44,942	209,423	8,787	2,244	817	1,962	268,175

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017							
At 1 January 2017:							
Cost	78,714	528,198	71,865	15,172	6,663	1,962	702,574
Accumulated depreciation	(33,772)	(318,775)	(63,078)	(12,928)	(5,846)	–	(434,399)
Net carrying amount	44,942	209,423	8,787	2,244	817	1,962	268,175
At 1 January 2017, net of accumulated depreciation	44,942	209,423	8,787	2,244	817	1,962	268,175
Additions	–	–	595	595	485	15,080	16,755
Disposals	–	(96)	(4)	(8)	(5)	–	(113)
Depreciation provided during the year	(4,149)	(17,553)	(3,425)	(830)	(230)	–	(26,187)
Transfers	–	14,992	–	–	–	(14,992)	–
At 31 December 2017, net of accumulated depreciation	40,793	206,766	5,953	2,001	1,067	2,050	258,630
At 31 December 2017:							
Cost	78,714	539,974	72,330	15,486	7,002	2,050	715,556
Accumulated depreciation	(37,921)	(333,208)	(66,377)	(13,485)	(5,935)	–	(456,926)
Net carrying amount	40,793	206,766	5,953	2,001	1,067	2,050	258,630

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018								
At 1 January 2018:								
Cost	78,714	539,974	72,330	15,486	7,002	–	2,050	715,556
Accumulated depreciation	(37,921)	(333,208)	(66,377)	(13,485)	(5,935)	–	–	(456,926)
Net carrying amount	40,793	206,766	5,953	2,001	1,067	–	2,050	258,630
At 1 January 2018, net of accumulated depreciation	40,793	206,766	5,953	2,001	1,067	–	2,050	258,630
Additions	436	–	855	1,492	2,674	264	6,388	12,109
Disposals	–	(14)	(98)	(48)	(274)	–	–	(434)
Depreciation provided during the year	(4,203)	(18,018)	(2,926)	(915)	(323)	(15)	–	(26,400)
Transfers	–	2,125	–	552	–	–	(2,677)	–
At 31 December 2018, net of accumulated depreciation	37,026	190,859	3,784	3,082	3,144	249	5,761	243,905
At 31 December 2018:								
Cost	79,150	541,628	69,894	15,933	4,560	264	5,761	717,190
Accumulated depreciation	(42,124)	(350,769)	(66,110)	(12,851)	(1,416)	(15)	–	(473,285)
Net carrying amount	37,026	190,859	3,784	3,082	3,144	249	5,761	243,905

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2019								
At 1 January 2019:								
Cost	79,150	541,628	69,894	15,933	4,560	264	5,761	717,190
Accumulated depreciation	(42,124)	(350,769)	(66,110)	(12,851)	(1,416)	(15)	–	(473,285)
Net carrying amount	37,026	190,859	3,784	3,082	3,144	249	5,761	243,905
At 1 January 2019, net of accumulated depreciation	37,026	190,859	3,784	3,082	3,144	249	5,761	243,905
Additions	187	–	900	369	593	–	1,138	3,187
Disposals	–	(39)	–	–	–	–	–	(39)
Depreciation provided during the period	(2,146)	(8,996)	(249)	(531)	(289)	(44)	–	(12,255)
Transfers	–	6,899	–	–	–	–	(6,899)	–
At 30 June 2019, net of accumulated depreciation	35,067	188,723	4,435	2,920	3,448	205	–	234,798
At 30 June 2019:								
Cost	79,337	547,249	70,794	16,302	5,153	264	–	719,099
Accumulated depreciation	(44,270)	(358,526)	(66,359)	(13,382)	(1,705)	(59)	–	(484,301)
Net carrying amount	35,067	188,723	4,435	2,920	3,448	205	–	234,798

15. INVESTMENT PROPERTIES

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year				
Cost	142,118	92,663	–	–
Accumulated depreciation and impairment	(50,538)	(45,169)	–	–
Net carrying amount	91,580	47,494	–	–
At the beginning of the year, net of accumulated depreciation	91,580	47,494	–	–
Additions	–	234	–	–
Disposals	(40,960)	(21,456)	–	–
Derecognition of subsidiaries *(note 32)*	–	(25,746)	–	–
Depreciation provided during the year	(3,423)	(1,492)	–	–
Impairment	(719)	–	–	–
Transfers from completed properties held for sale *(note 20)*	1,016	966	–	–
At the end of the year, net of accumulated depreciation	47,494	–	–	–
At the end of the year				
Cost	92,663	–	–	–
Accumulated depreciation and impairment	(45,169)	–	–	–
Net carrying amount	47,494	–	–	–

The Group's investment properties are situated in Mainland China and are held under medium term leases.

As at 31 December 2016, certain of the Group's investment properties with carrying amounts of RMB8,506,000, were pledged to secure the Group's bank loans (note 27).

The Group's investment properties consist of industrial properties in Mainland China. The Group's investment properties were revalued on 31 December 2016 and 30 September 2017 based on valuations performed by AVISTA Valuation Advisory Limited ("AVISTA"), independent professionally qualified valuers. The investment properties were leased to third parties.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties for disclosure of fair value only:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets	**Significant observable inputs**	**Significant unobservable inputs**	
	(Level 1)	**(Level 2)**	**(Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Industrial properties	–	–	116,160	116,160

As at 30 September 2017

	Fair value measurement using			
	Quoted prices in active markets	**Significant observable inputs**	**Significant unobservable inputs**	
	(Level 1)	**(Level 2)**	**(Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Industrial properties	–	–	87,960	87,960

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

As at 31 December 2016:

Investment properties	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs**
Industrial properties	Income method	Prevailing market rent	RMB8.4 – RMB26.9 per square metre per month
		Term yield	4.0%
		Reversionary yield	4.5%

As at 30 September 2017:

Investment properties	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs**
Industrial properties	Income method	Prevailing market rent	RMB5.4 – RMB32.0 per square metre per month
		Term yield	4.0%
		Reversionary yield	4.5%

The income method measures the value of the properties by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates.

A significant increase (decrease) in the estimated rental value would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the capitalisation rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

16. INVESTMENT IN AN ASSOCIATE

Group and Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	25,000	50,000	59,600	104,600

Particulars of the associate are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued/registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Taizhou Zhuxi Reservoir Development Co., Ltd. ("Zhuxi Reservoir")	PRC/Mainland China	RMB800,000,000	15.625	Zhuxi reservoir project construction and operation, water resources development, utilisation and protection

In the opinion of directors, the associate is not material to the Group.

The Group's shareholdings in the associate all comprise equity shares held by the Company.

17. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investments, at cost	349,516	285,652	334,240	334,240

18. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Group

	Right-of-use assets			
	Buildings	**Lands**	**Total**	**Lease Liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016	1,204	65,458	66,662	1,204
Depreciation recognised in profit or loss during the year	(587)	(1,614)	(2,201)	–
Payment during the year	–	–	–	(587)
As at 31 December 2016 and 1 January 2017	617	63,844	64,461	617
Additions	–	166,937	166,937	166,937
Derecognition of subsidiaries *(note 32)*	–	(3,412)	(3,412)	–
Depreciation recognised in profit or loss during the year	(617)	(3,692)	(4,309)	–
Depreciation capitalised in property, plant and equipment during the year *(note 14)*	–	(1,927)	(1,927)	–
Payment during the year	–	–	–	(165,794)
As at 31 December 2017 and 1 January 2018	–	221,750	221,750	1,760
Additions	–	59,553	59,553	59,553
Depreciation recognised in profit or loss during the year	–	(4,648)	(4,648)	–
Depreciation capitalised in property, plant and equipment during the year *(note 14)*	–	(12,610)	(12,610)	–
Payment during the year	–	–	–	(42,022)
As at 31 December 2018 and 1 January 2019	–	264,045	264,045	19,291
Additions	–	132,329	132,329	132,329
Transfer from prepayments for land use right	–	8,876	8,876	–
Depreciation recognised in profit or loss during the year	–	(3,041)	(3,041)	–
Depreciation capitalised in property, plant and equipment during the period *(note 14)*	–	(16,665)	(16,665)	–
Payment during the period	–	–	–	(146,240)
As at 30 June 2019	–	385,544	385,544	5,380

The Group's right-of-use assets are held under the leases of buildings and lands for its construction of pipelines and office space within terms ranging between two and fifty years . All the payments need to be paid on the lease commencement date and all the lease liabilities are repayable on demand.

Company

	Right-of-use assets	
	Lands	**Lease Liabilities**
	RMB'000	*RMB'000*
At 1 January 2016	8,035	–
Depreciation recognised in profit or loss during the year	(215)	–
As at 31 December 2016 and 1 January 2017	7,820	–
Additions	767	767
Depreciation recognised in profit or loss during the year	(369)	–
Payment during the year	–	(767)
As at 31 December 2017 and 1 January 2018	8,218	–
Depreciation recognised in profit or loss during the year	(369)	–
Payment during the year	–	–
As at 31 December 2018 and 1 January 2019	7,849	–
Depreciation recognised in profit or loss during the period	(184)	–
Payment during the period	–	–
As at 30 June 2019	7,665	–

19. PROPERTIES UNDER DEVELOPMENT

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	961,075	827,230	–	–
Additions	315,956	93,373	–	–
Derecognition of subsidiaries *(note 32)*	–	(75,053)	–	–
Transfer to completed properties held for sale *(note 20)*	(449,801)	(845,550)	–	–
Carrying amount	827,230	–	–	–

20. COMPLETED PROPERTIES HELD FOR SALE

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	12,424	269,234	–	–
Transfer from properties under development *(note 19)*	449,801	845,550	–	–
Transfer to investment properties *(note 15)*	(1,016)	(966)	–	–
Transfer to property, plant and equipment *(note 14)*	(14,166)	(4,347)	–	–
Derecognition of subsidiaries *(note 32)*	–	(633,162)	–	–
Transfer to cost of properties sold	(178,130)	(476,309)	–	–
Write down during the year/period	321	–	–	–
Carrying amount	269,234	–	–	–

As at 31 December 2016, certain of the Group's completed properties held for sale with carrying amounts of RMB9,622,000, were pledged to secure the Group's bank loans.

21. INVENTORIES

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	3,966	4,167	4,213	4,391

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	627	586	312	247

22. TRADE RECEIVABLES

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	82,781	107,782	63,019	56,080
Due from related parties *(note 38(b))*	92,503	107,641	96,157	80,577
	175,284	215,423	159,176	136,657
Impairment	(49,837)	(50,444)	(49,986)	(50,682)
	125,447	164,979	109,190	85,975

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, certain of the Group's trade receivables with carrying amounts of RMB61,165,000, RMB139,585,000, RMB93,648,000 and RMB73,756,000, respectively, were pledged to secure the Group's bank loans (note 27).

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	115,124	147,983	89,817	81,032
3 to 6 months	5,663	13,765	10,893	2,358
6 to 12 months	2,803	2,201	8,057	964
1 to 2 years	837	819	121	1,260
2 to 3 years	1,020	211	302	361
	125,447	164,979	109,190	85,975

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	49,376	49,837	50,444	49,986
Impairment losses recognised	461	736	120	696
Derecognition of subsidiaries	–	(129)	–	–
Disposal of subsidiaries	–	–	(578)	–
At end of year/period	49,837	50,444	49,986	50,682

The Group has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the expected credit losses were determined according to provision matrix as follows:

	Amount	Expected credit loss rate	Expected credit losses
	RMB'000		*RMB'000*
31 December 2016			
Less than 1 year	123,832	0.19%	235
Between 1 and 2 years	1,067	21.56%	230
Over 2 years	1,705	40.59%	692
Default receivables	48,680	100.00%	48,680
	175,284		49,837
31 December 2017			
Less than 1 year	164,265	0.19%	312
Between 1 and 2 years	1,042	21.40%	223
Over 2 years	1,436	85.58%	1,229
Default receivables	48,680	100.00%	48,680
	215,423		50,444
31 December 2018			
Less than 1 year	108,978	0.19%	207
Between 1 and 2 years	156	22.44%	35
Over 2 years	1,362	78.12%	1,064
Default receivables	48,680	100.00%	48,680
	159,176		49,986
30 June 2019			
Less than 1 year	84,533	0.21%	178
Between 1 and 2 years	1,926	30.43%	586
Over 2 years	1,518	81.55%	1,238
Default receivables	48,680	100.00%	48,680
	136,657		50,682

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	14,111	21,410	15,131	11,317
Due from subsidiaries *(note 38(b))*	18,940	28,274	15,898	13,030
Due from related parties *(note 38(b))*	24,083	25,473	20,363	19,638
	57,134	75,157	51,392	43,985
Impairment	(141)	(91)	(71)	(576)
	56,993	75,066	51,321	43,409

The Company's trading terms with its customers , subsidiaries and related parties are mainly on credit. The credit period is generally two months. The Company seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	51,935	67,273	45,861	39,140
3 to 6 months	3,452	6,266	2,675	2,358
6 to 12 months	1,365	1,527	2,785	950
1 to 2 years	241	–	–	961
	56,993	75,066	51,321	43,409

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	67	141	91	71
Impairment losses recognised/(reversed)	74	(50)	(20)	505
At end of year/period	141	91	71	576

The Company has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Company overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Company considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the expected credit losses were determined according to provision matrix as follows:

	Amount	Expected credit loss rate	Expected credit losses
	RMB'000		*RMB'000*
31 December 2016			
Less than 1 year	56,827	0.13%	74
Between 1 and 2 years	307	21.82%	67
	57,134		141
31 December 2017			
Less than 1 year	75,157	0.12%	91
31 December 2018			
Less than 1 year	51,392	0.14%	71
30 June 2019			
Less than 1 year	42,529	0.19%	81
Between 1 and 2 years	1,456	34.00%	495
	43,985		576

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	634	1,600	4,395	1,897
Deposits and other receivables	103,754	14,128	13,728	13,577
Due from related parties *(note 38(b))*	–	320,747	–	308
Costs to obtain contracts*	679	–	–	–
Prepaid income tax	1,746	861	861	1,848
Prepaid LAT	5,904	–	–	–
Contract asset	–	–	–	3,115
Prepaid other taxes	15,464	664	–	–
	128,181	338,000	18,984	20,745
Non-current portion included in deposits and other receivables**	(13,000)	(13,000)	–	–
Current portion	115,181	325,000	18,984	20,745
Impairment allowance	(80,901)	(4)	(2)	(4)
Current portion net of impairment	34,280	324,996	18,982	20,741

* Costs to obtain contracts are initially recognised for revenue earned from the sale of completed properties. Included in costs to obtain contracts for the sale of completed properties is sales commission. When the revenue from the related property sale is recognised, the amount recognised as costs to obtain contracts is charged to selling and distribution expenses.

** Non-current portion included in prepayments, other receivables and other assets represents the deposit of the Company with carrying amounts of RMB13,000,000, RMB13,000,000 as at 31 December 2016 and 2017 pledged for other borrowings and recorded as current portion included in deposits and other receivables with a carrying amount of RMB13,000,000 as at 31 December 2018 due to the maturity of other borrowings in 2019 (note 27).

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	80,761	80,901	4	2
Impairment losses recognised	351	27	266	2
Write-off	(211)	–	–	–
Derecognition of subsidiaries	–	(80,924)	–	–
Disposal of subsidiaries	–	–	(268)	–
At end of year/period	80,901	4	2	4

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	44	35	49	212
Deposits and other receivables	91,993	55,458	13,243	9,615
Due from subsidiaries *(notes 38(b))*	110,912	566,851	565,483	565,483
Prepaid income tax	–	–	–	987
Prepaid other taxes	–	607	–	–
	202,949	622,951	578,775	576,297
Non-current portion included in deposits and other receivables	(13,000)	(13,000)	–	–
Current portion	189,949	609,951	578,775	576,297
Impairment allowance	(1)	(1)	(1)	(2)
Current portion net of impairment	189,948	609,950	578,774	576,295

Management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other receivables and amounts due from related parties based on historical settlement records and past experiences. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the credit ratings of deposits and other receivables and amounts due from related parties were assessed. Except for the default receivables amounting to RMB80,694,000, the Group assessed that the expected credit losses for these receivables and amounts due from related parties are not material under the 12-month ECL method. In view of the history of cooperation with debtors and the sound collection history of deposits and other receivables and amounts due from related parties, management believes that the credit risk inherent in the Group's outstanding deposits and other receivable and amounts due from related parties balances are not significant.

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	830,163	485,785	314,398	340,591
Pledged bank deposits	–	10,829	14,877	16,693
	830,163	496,614	329,275	357,284
Less: Pledged deposits for land reclamation fee	–	(10,829)	(14,877)	(16,693)
Cash and cash equivalents	830,163	485,785	314,398	340,591

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances and cash and cash equivalents	600,923	48,474	42,497	37,666

25. TRADE PAYABLES

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	286,338	85,444	68,471	60,378

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	153,837	41,421	42,764	39,040
3 to 6 months	34,258	28,459	21,607	17,777
6 to 12 months	80,506	10,788	597	130
Over 12 months	17,737	4,776	3,503	3,431
	286,338	85,444	68,471	60,378

Trade payables are non-interest-bearing and are normally settled on terms of one to two months.

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	101,427	81,309	67,804	59,969

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	26,743	39,367	42,315	38,936
3 to 6 months	33,846	28,443	21,507	17,747
6 to 12 months	29,687	10,127	574	–
Over 12 months	11,151	3,372	3,408	3,286
	101,427	81,309	67,804	59,969

Trade payables are non-interest-bearing and are normally settled on terms of one to two months.

26. Other payables and accruals

Group

	Notes	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	*(a)*	43,396	80,524	122,356	143,025
Due to related parties	*38(b)*	–	1,403	–	2,081
Accrued salaries		34,959	34,142	26,564	23,168
Interest payable		1,931	1,531	1,099	1,444
Rental income received in advance		1,136	–	–	–
Contract liabilities	*(b)*	402,837	16,982	4,110	4,822
Other taxes payables		14,703	17,365	6,551	3,361
		498,962	151,947	160,680	177,901

Notes:

(a) Other payables are non-interest-bearing and repayable on demand.

(b) Details of contract liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019 are as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term advances received from customers				
Sale of water	524	1,280	750	102
Installation services	9,108	13,326	3,360	4,720
Construction services	194	2,376	–	–
Sale of properties	393,011	–	–	–
Total contract liabilities	402,837	16,982	4,110	4,822

Contract liabilities include short-term advances received to deliver water and properties and installation services. The decrease in contract liabilities in 2017 was the result of the decrease in short-term advances received from customers in relation to delivery of properties during the year. The decrease in contract liabilities in 2018 was the result of the decrease in short-term advances received from customers in relation to services rendered during the year.

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	12,382	2,904	2,884	8,256
Due to subsidiaries *(note 38(b))*	320,032	290,541	290,000	320,000
Due to related parties	–	–	–	1,327
Accrued salaries	18,959	19,283	15,503	13,835
Interest payable	292	483	483	483
Other taxes payable	9,067	12,045	1,933	1,448
	360,732	352,256	310,803	345,349

Other payables are non-interest-bearing and repayable on demand.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Effective interest rate (%)	Maturity	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current						
Current portion of long term bank loans						
Bank loans – secured	4.41	2017	54,000	–	–	–
Bank loans – secured	6.90	2017	115,000	–	–	–
Bank loans – secured	7.07	2017	50,000	–	–	–
Bank loans – secured	5.15	2017	49,000	–	–	–
Bank loans – secured	5.40	2017	30,000	–	–	–
Bank loans – secured	5.15	2018	–	105,000	–	–
Bank loans – secured	4.90	2018	–	225,000	–	–
Current portion of other borrowings						
Other borrowings – secured	3.09	2017	42,801	–	–	–
Other borrowings – secured	3.09	2018	–	44,171	–	–
Other borrowings – secured	3.09	2019	–	–	22,786	–
			340,801	374,171	22,786	–

	Effective interest rate (%)	Maturity	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current						
Bank loans						
Bank loans – secured	5.40	2025	310,000	–	–	–
Bank loans – secured	5.15	2023-2028	358,000	253,000	253,000	193,000
Bank loans – secured	4.90	2025-2047	–	102,000	164,000	542,000
Other borrowings						
Other borrowings – unsecured	9.60	2018	15,000	–	–	–
Other borrowings – unsecured	9.60	2019	15,000	–	–	–
Other borrowings – secured	2.80	2041	565,000	565,000	565,000	565,000
Other borrowings – secured	3.09	2019	64,496	22,156	–	–
			1,327,496	942,156	982,000	1,300,000

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	298,000	330,000	–	–
In the second year	–	–	–	–
In the third to fifth years, inclusive	–	–	36,000	10,000
Beyond five years	668,000	355,000	381,000	725,000
	966,000	685,000	417,000	735,000
Other borrowings repayable:				
Within one year	42,801	44,171	22,786	–
In the second year	57,340	22,156	–	–
In the third to fifth years, inclusive	37,156	–	–	–
Beyond five years	565,000	565,000	565,000	565,000
	702,297	631,327	587,786	565,000

Notes:

(a) The Group's bank and other borrowings are secured by:

(i) the pledge of Zhejiang Mingji's completed properties held for sale with carrying amounts of RMB9,622,000, RMB9,622,000, nil and nil as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively;

(ii) the pledge of Group's trade receivables with carrying amounts of RMB61,165,000, RMB139,585,000, RMB93,648,000 and RMB73,756,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively (note 22) and the right of charge on the future revenue generated by Taizhou water supply system (Phase I and Phase II);

(iii) the pledge of Binhai Water's right of charge on the future revenue generated by Taizhou water supply system (Phase III);

(iv) the pledged deposit for other borrowings of the Company with approximately a carrying amount of RMB13,000,000 as at 31 December 2016, 2017 and 2018 (note 23);

(v) the pledge of Water Supply Hotel's investment properties with carrying amounts of RMB8,506,000 as at 31 December 2016 (note 15); and

(vi) the pledge of Taizhou South Bay Water Supply's right of charge on the future revenue.

(b) Taizhou City Water has guaranteed certain of the Group's bank loans of up to RMB500,000,000, RMB3,007,000,000, RMB3,007,000,000 and RMB3,065,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(c) A shareholder of the Company, Taizhou Urban Construction Investment Development Group Co., Ltd. ("**Taizhou Urban Construction**") has guaranteed certain of the Group's bank loans of up to RMB565,000,000, RMB565,000,000, RMB565,000,000 and RMB565,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(d) Zhejiang Mingji had guaranteed certain of the Group's bank loans of up to RMB1,202,000,000, RMB452,000,000, RMB452,000,000 and nil as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(e) Water Supply Hotel had guaranteed certain of the Group's bank loans of up to RMB500,000,000 as at 31 December 2016.

(f) The Company has guaranteed certain of the Group's bank loans of up to RMB1,142,000,000, RMB3,899,000,000, RMB4,899,000,000 and RMB5,017,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(g) A shareholder of the Taizhou South Bay Water Supply, Yuhuan Water Supply Group Co., Ltd. ("Yuhuan Water Supply Group") has guaranteed certain of the Group's bank loans of up to RMB190,000,000 as at 30 June 2019.

Company

	Effective interest rate (%)	Maturity	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current						
Current portion of long term bank loans						
Bank loans – secured	4.41	2017	54,000	–	–	–
Current portion of other borrowings						
Other borrowings – secured	3.09	2017	42,801	–	–	–
Other borrowings – secured	3.09	2018	–	44,171	–	–
Other borrowings – secured	3.09	2019	–	–	22,786	–
			96,801	44,171	22,786	–
Non-current						
Other borrowings						
Other borrowings – secured	2.80	2041	565,000	565,000	565,000	565,000
Other borrowings – secured	3.09	2019	64,496	22,156	–	–
			629,496	587,156	565,000	565,000

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable				
Within one year	54,000	–	–	–
Other borrowings repayable:				
Within one year	42,801	44,171	22,786	–
In the second year	42,340	22,156	–	–
In the third to fifth years, inclusive	22,156	–	–	–
Beyond five years	565,000	565,000	565,000	565,000
	672,297	631,327	587,786	565,000

Notes:

(a) The Company's bank borrowings were secured by the pledge of Zhejiang Mingji's completed properties held for sale with carrying amounts of RMB9,622,000, RMB9,622,000, nil and nil as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(b) The Company's bank borrowings were secured by the pledge of Water Supply Hotel's investment properties with carrying amounts of RMB8,506,000 as at 31 December 2016 (note 15).

(c) The Company's other borrowings were secured by the pledged deposit for other borrowings of the Company with approximately a carrying amount of RMB13,000,000 as at 31 December 2016, 2017 and 2018 (note 23).

(d) Taizhou Urban Construction had guaranteed certain of the Company's other borrowings of up to RMB565,000,000, RMB565,000,000, RMB565,000,000 and RMB565,000,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

(e) Water Supply Hotel had guaranteed certain of the Company's bank loans of up to RMB500,000,000 as at 31 December 2016.

(f) Zhejiang Mingji had guaranteed certain of the Company's bank loans of up to RMB500,000,000 as at 31 December 2016.

(g) Taizhou City Water, had guaranteed certain of the Company's bank loans of up to RMB500,000,000 as at 31 December 2016.

28. DEFERRED GOVERNMENT GRANTS

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	6,396	6,068	28,864	36,483
Grants received during the year/period	–	24,009	10,324	50,000
Amount released	(328)	(1,213)	(2,705)	(1,401)
At 31 December	6,068	28,864	36,483	85,082
Current portion	(329)	(1,902)	(2,725)	(2,725)
Non-current portion	5,739	26,962	33,758	82,357

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	–	–	12,708	21,239
Grants received during the year/period	–	13,203	10,324	–
Amount released	–	(495)	(1,793)	(945)
At 31 December	–	12,708	21,239	20,294
Current portion	–	(990)	(1,813)	(1,813)
Non-current portion	–	11,718	19,426	18,481

The government grants are related to the subsidies for the compensation of relocation and reconstruction of the original water supply pipelines of certain projects of the Group – upon completion of the related projects and successful final assessment of the relevant government authorities. The grants related to assets would be released to profit or loss over the expected useful lives of the relevant assets.

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Deferred tax liabilities

Group

	Costs to obtain contracts
	RMB'000
Deferred tax liabilities as at 1 January 2016	419
Deferred tax credited to profit or loss during the year *(note 10)*	(249)
Deferred tax liabilities as at 31 December 2016 and 1 January 2017	170
Deferred tax charged to profit or loss during the year *(note 10)*	209
Derecognition of subsidiaries *(note 32)*	(379)
Deferred tax liabilities as at 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	–

Deferred tax assets

Group

	Impairment of trade and other receivables	Accrued salaries	Government grants	Accrued LAT	Unrealised profit attributable to the intra-group	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets as at 1 January 2016	12,285	1,186	1,932	–	38,879	54,282
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	120	699	(1,161)	7,597	(2,105)	5,150
Deferred tax assets as at 31 December 2016 and 1 January 2017	12,405	1,885	771	7,597	36,774	59,432
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	74	(18)	4,741	(6,483)	(11,712)	(13,398)
Derecognition of subsidiaries *(note 32)*	6	–	–	(1,114)	(25,062)	(26,170)
Deferred tax as at 31 December 2017 and 1 January 2018	12,485	1,867	5,512	–	–	19,864
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	12	(462)	1,944	–	–	1,494
Deferred tax assets as at 31 December 2018	12,497	1,405	7,456	–	–	21,358
Deferred tax credited/(charged) to profit or loss during the period *(note 10)*	174	–	(289)	–	–	(115)
Deferred tax assets as at 30 June 2019	12,671	1,405	7,167	–	–	21,243

Company

	Impairment of trade and other receivables	Accrued salaries	Government grants	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets as at 1 January 2016	17	515	–	532
Deferred tax credited to profit or loss during the year	18	511	–	529
Deferred tax assets as at 31 December 2016 and 1 January 2017	35	1,026	–	1,061
Deferred tax credited/(charged) to profit or loss during the year	(13)	7	3,177	3,171
Deferred tax as at 31 December 2017 and 1 January 2018	22	1,033	3,177	4,232
Deferred tax credited/(charged) to profit or loss during the year	(5)	(800)	2,133	1,328
Deferred tax assets as at 31 December 2018 and 1 January 2019	17	233	5,310	5,560
Deferred tax credited/(charged) to profit or loss during the period	127	–	(236)	(109)
Deferred tax assets as at 30 June 2019	144	233	5,074	5,451

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	59,262	19,864	21,358	21,243

Deferred tax assets have not been recognised in respect of the following item:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses from continuing operations	12,822	15,691	13,166	16,680
Tax losses from discontinued operations	12,899	–	–	–
	25,721	15,691	13,166	16,680

The above tax losses arising in Mainland China will expire in one to five years for offsetting against taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. SHARE CAPITAL

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ordinary shares with par value of RMB1 each	149,130	150,000	150,000	150,000

The movements in the Company's share capital during the Relevant Periods are as follows:

	Ordinary shares
	RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	149,130
Transfer from retained profits *(note (a))*	68,600
Derecognition of subsidiaries *(note (b))*	(67,730)
At 31 December 2017, 1 January 2018 and 31 December 2018, 1 January 2019 and 30 June 2019	150,000

Notes:

(a) Pursuant to the resolution of shareholders' meeting on 12 March 2017, the shareholders agreed to transfer the retained profits of RMB68,600,000 to the share capital.

(b) As a result of the Derecognition completed on 11 October 2017, as further explained in note 11(i), the share capital of the Company was reduced by RMB67,730,000.

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity.

Capital reserve

Capital reserve as at 1 January 2016 mainly represented the following:

(1) In November 1998, the founders of the Company agreed to convert Taizhou Water Supply Co., Ltd. ("Predecessor Company"), a limited liability company into a joint stock limited liability company under the name of Zhejiang Taizhou Water Supply Co., Ltd., based on the appraised value of the net assets of the Company as of 30 November 2018 of RMB115,444,000, out of which RMB109,130,000 was considered as the registered capital of the Company and the remaining amount of RMB6,314,000 was recorded as capital reserve.

(2) During the conversion of the Predecessor Company into a joint stock limited liability company, two new shareholders, Taizhou Trust and Investment Co., Ltd. and Wenling Zhijiang Real Estate Development Co., Ltd., injected total cash contribution of RMB59,200,000 into the Company. Out of the said amount, RMB40,000,000 was considered as the registered capital of the Company and the remaining amount of RMB19,200,000 was recorded as capital reserve.

(3) In December 1998, Taizhou Financial Development Co., Ltd., invested in the Company by using its shareholding in Zeguo Water Plant which was valued based on the net asset value of Zeguo Water Plant. The difference between the agreed net asset value of Zeguo Water Plant as stipulated in the agreement and the net asset value of Zeguo Water Plant as of 31 December 1998 of RMB960,000 was recorded as capital reserve.

Statutory surplus reserve

Pursuant to the PRC Company Law and the respective entities' articles of association, the Company and its subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory surplus reserve until such reserve fund reaches 50% of the share capital of these entities. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, except for offsetting prior years' losses, such reserve must be maintained at a minimum of 25% of the share capital after usage.

Company

	Capital reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	26,502	45,970	68,515	140,987
Profit and total comprehensive income for the year	–	–	25,589	25,589
Transfer to statutory surplus reserve	–	2,559	(2,559)	–
At 31 December 2016 and 1 January 2017	26,502	48,529	91,545	166,576
Profit and total comprehensive income for the year	–	–	39,751	39,751
Transfer to statutory surplus reserve	–	3,975	(3,975)	–
Transfer to share capital	–	–	(68,600)	(68,600)
At 31 December 2017 and 1 January 2018	26,502	52,504	58,721	137,727
Profit and total comprehensive income for the year	–	–	46,049	46,049
Transfer to statutory surplus reserve	–	4,605	(4,605)	–
At 31 December 2018 and 1 January 2019	26,502	57,109	100,165	183,776
Profit and total comprehensive income for the period	–	–	21,406	21,406
At 30 June 2019	26,502	57,109	121,571	205,182

32. DERECOGNITION/DISPOSAL OF SUBSIDIARIES

Derecognition of subsidiaries

On 11 October 2017, the Company derecognised the Property Development and Leasing Business through two PRC subsidiaries, namely Zhejiang Mingji and Water Supply Hotel. As a result of the Derecognition, the share capital of the Company was reduced from RMB217,730,000 to RMB150,000,000, and Taizhou Development was formed by the shareholders of the Company on 28 August 2017 with a registered capital of RMB67,730,000.

	Water Supply Hotel	Zhejiang Mingji and its subsidiaries	Total
	RMB'000	*RMB'000*	*RMB'000*
Net assets derecognised of:			
Property, plant and equipment	1,637	22,132	23,769
Investment properties	8,232	17,514	25,746
Deferred tax assets	–	25,791	25,791
Right-of-use assets	3,412	–	3,412
Properties under development	–	75,053	75,053
Completed properties held for sale	–	633,162	633,162
Trade receivables	–	1,248	1,248
Prepayments, other receivables and other assets	15,036	30,745	45,781
Cash and bank balances	15,258	153,359	168,617
Trade payables	(568)	(157,914)	(158,482)
Other payables and accruals	(2,625)	(564,179)	(566,804)
Interest-bearing bank and other borrowings	–	(30,000)	(30,000)
Tax payable	(178)	(50,595)	(50,773)
	40,204	156,316	196,520

Disposal of subsidiaries

On 7 November 2018, the Company entered into an equity transfer agreement with Taizhou Development, pursuant to which the Company agreed to transfer 100% equity interests in Zhejiang Taizhou Landscape and Taizhou Modern Construction to Taizhou Development for considerations of RMB12,670,000 and RMB7,020,000, respectively. Upon the completion of the transfer on 15 November 2018, the Group no longer has the control over Zhejiang Taizhou Landscape and Taizhou Modern Construction, which were deconsolidated since then.

	Zhejiang Taizhou Landscape	Taizhou Modern Construction	Total
	RMB'000	*RMB'000*	*RMB'000*
Net assets disposed of:			
Property, plant and equipment	392	657	1,049
Trade receivables	5,696	755	6,451
Prepayments, other receivables and other assets	861	1,126	1,987
Cash and bank balances	4,732	7,101	11,833
Trade payables	(757)	(3,649)	(4,406)
Other payables and accruals	(67)	(2,112)	(2,179)
	10,857	3,878	14,735
Gain on disposal of subsidiaries	1,813	3,142	4,955
Satisfied by:			
Cash	12,670	7,020	19,690

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018
	RMB'000
Cash consideration	19,690
Cash and bank balances disposed of	(11,833)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	7,857

33. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Interest payables
	RMB'000	*RMB'000*
At 1 January 2016	1,421,941	2,372
Changes from financing cash flows	246,356	(73,139)
Interest on bank and other borrowings	–	72,698
At 31 December 2016 and 1 January 2017	1,668,297	1,931
Changes from financing cash flows	(321,970)	(62,652)
Interest on bank and other borrowings	–	63,291
Changes from derecognition of subsidiaries	(30,000)	(1,039)
At 31 December 2017 and 1 January 2018	1,316,327	1,531
Changes from financing cash flows	(311,541)	(42,918)
Interest on bank and other borrowings	–	42,486
At 31 December 2018 and 1 January 2019	1,004,786	1,099
Changes from financing cash flows	308,214	(23,962)
Interest on bank and other borrowings	–	24,307
Non-cash change (a)	(13,000)	–
At 30 June 2019	1,300,000	1,444
At 31 December 2017 and 1 January 2018	1,316,327	1,531
Changes from financing cash flows (unaudited)	(261,439)	(24,819)
Interest on bank and other borrowings (unaudited)	–	24,514
At 30 June 2018 (unaudited)	1,054,888	1,226

Note:

(a) During the six months ended 30 June 2019, the secured deposit of other borrowings with approximately carrying amounts of RMB13,000,000 will not be refunded and regarded as the last rental installment.

34. CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 30 June 2019, contingent liabilities not provided for in the Historical Financial Information were as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees given to banks in respect of mortgage facilities granted to the purchasers of the Group's properties	176,440	–	–	–

The Group provided guarantees in respect of mortgage facilities granted by certain banks to the purchasers of the Group's completed properties held for sale. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to those banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee period commences from the date of grant of the relevant mortgage loan and ends at the execution of individual purchaser's collateral agreement.

The Group did not incur any material losses during the Relevant Periods in respect of the guarantees provided for mortgage facilities granted to the purchasers of the Group's completed properties held for sale. The directors considered that in case of default on payments, the net realisable value of the related properties would be sufficient to repay the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for bank and other borrowing are included in notes 15, 20, 22 and 23 to the Historical Financial Information.

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
Percentage of equity interest held by non-controlling interests:				
Taizhou City Water	18.0%	18.0%	18.0%	18.0%
Zhejiang Mingji	37.2%	37.2%	–	–
Taizhou South Bay Water Supply	–	–	40.0%	40.0%

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year/period allocated to non-controlling interests:				
Taizhou City Water	10,269	13,376	13,048	5,802
Zhejiang Mingji and its subsidiaries	11,757	32,043	–	–
Taizhou South Bay Water Supply	–	–	–	(253)
Accumulated balances of non-controlling interests at the reporting date:				
Taizhou City Water	59,264	72,640	85,688	91,490
Zhejiang Mingji and its subsidiaries	46,260	–	–	–
Taizhou South Bay Water Supply	–	–	40,000	39,747

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2016

	Taizhou City Water	Zhejiang Mingji and its subsidiaries
	RMB'000	*RMB'000*
Revenue	289,261	212,591
Total expense	(232,213)	(180,987)
Profit for the year	57,048	31,604
Total comprehensive income for the year	57,048	31,604
Current assets	801,696	1,320,396
Non-current assets	435,217	74,019
Current liabilities	(239,671)	(1,239,891)
Non-current liabilities	(668,000)	(30,170)
Net cash flows from operating activities	47,148	225,341
Net cash flows used in investing activities	(43,940)	(824)
Net cash flows used in financing activities	(57,784)	(194,497)
Net increase/(decrease) in cash and cash equivalents	(54,576)	30,020

2017

	Taizhou City Water	Zhejiang Mingji and its subsidiaries
	RMB'000	*RMB'000*
Revenue	332,493	640,559
Total expense	(258,181)	(554,422)
Profit for the year	74,312	86,137
Total comprehensive income for the year	74,312	86,137
Current assets	841,955	–
Non-current assets	405,988	–
Current liabilities	(500,483)	–
Non-current liabilities	(343,906)	–
Net cash flows from operating activities	85,924	282,510
Net cash flows from/(used in) investing activities	69,081	(1,515)
Net cash flows used in financing activities	(116,071)	(209,331)
Net increase in cash and cash equivalents	38,934	71,664

2018

	Taizhou City Water	Taizhou South Bay Water Supply
	RMB'000	*RMB'000*
Revenue	359,138	–
Total expense	(286,650)	–
Profit for the year	72,488	–
Total comprehensive income for the year	72,488	–
Current assets	536,862	19,541
Non-current assets	371,777	111,810
Current liabilities	(89,245)	(31,351)
Non-current liabilities	(343,352)	–
Net cash flows from operating activities	111,238	65
Net cash flows from/(used in) investing activities	295,705	(88,002)
Net cash flows (used in)/from financing activities	(354,918)	100,000
Net increase in cash and cash equivalents	52,025	12,063

For the six months ended 30 June 2019 and at 30 June 2019

	Taizhou City Water	Taizhou South Bay Water Supply
	RMB'000	*RMB'000*
Revenue	154,062	–
Total expense	(121,821)	(633)
Profit for the period	32,241	(633)
Total comprehensive income for the period	32,241	(633)
Current assets	516,544	88,657
Non-current assets	359,960	258,880
Current liabilities	(85,212)	(8,170)
Non-current liabilities	(283,009)	(240,000)
Net cash flows from operating activities	40,530	46,040
Net cash flows used in investing activities	(4,211)	(161,921)
Net cash flows (used in)/from financing activities	(68,677)	187,066
Net (decrease)/increase in cash and cash equivalents	(32,358)	71,185

37. COMMITMENTS

Capital commitments

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Pipelines and buildings	31,132	983,695	1,519,414	1,408,242

Operating lease commitments – lessor

The Group leases its investment properties under operating lease arrangements, with negotiated for terms ranging from one to five years.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received as at 31 December 2016, 2017 and 2018 and 30 June 2019:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	7,579	–	–	–
In the second to fifth years, inclusive	9,786	–	–	–
Total undiscounted lease payments	17,365	–	–	–

38. RELATED PARTY TRANSACTIONS

The Group's related parties are as follows:

Name	Relationship with the Company
Taizhou Urban Construction	A shareholder of the Company
Taizhou Development	An entity controlled by the shareholders of the Company
Zhejiang Mingji	An entity controlled by the shareholders of the Company
Wenling Mingcheng	An entity controlled by the shareholders of the Company
Zhenjiang Mingji	An entity controlled by the shareholders of the Company
Water Supply Hotel	An entity controlled by the shareholders of the Company
Zhejiang Taizhou Landscape	An entity controlled by the shareholders of the Company
Taizhou Modern Construction	An entity controlled by the shareholders of the Company
Taizhou Luqiao Water Supply Co., Ltd. ("Taizhou Luqiao Water Supply")	An entity controlled by the shareholders of the Company
Zhejiang Huangyan Water Supply Co., Ltd. ("Zhejiang Huangyan Water Supply")	An entity controlled by the shareholders of the Company
Wenling Water Supply Co., Ltd. ("Wenling Water Supply")	A shareholder of Taizhou City Water
Yuhuan Water Supply Co., Ltd. ("Yuhuan Water Supply")	An entity controlled by the non-controlling shareholders of a subsidiary

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Notes	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income from:						
Zhenjiang Mingji	*(i)*	–	4,407	4,579	4,579	–
Wenling Mingcheng	*(ii)*	–	2,222	1,805	1,805	–
		–	6,629	6,384	6,384	–
Construction services from:						
Zhejiang Taizhou Landscape	*(iii)*	–	–	354	–	1,509
Sales of water to:						
Taizhou Luqiao Water Supply	*(iii)*	79,593	87,995	97,118	45,827	45,197
Zhejiang Huangyan Water Supply	*(iii)*	31,814	34,562	40,480	20,512	19,893
Yuhuan Water Supply	*(iii)*	–	–	45,448	15,029	18,934
Wenling Water Supply	*(iii)*	92,969	111,088	123,417	61,354	54,419
		204,376	233,645	306,463	142,722	138,443
Construction services to:						
Taizhou Luqiao Water Supply	*(iii)*	58	–	–	–	–
Zhenjiang Mingji	*(iii)*	–	313	226	226	–
Wenling Mingcheng	*(iii)*	–	812	4,282	4,282	69
Taizhou Modern Construction	*(iii)*	–	–	–	–	13
Water Supply Hotel	*(iii)*	–	–	490	490	–
		58	1,125	4,998	4,998	82

Notes:

(i) The entrusted loans to Zhenjiang Mingji were used for the construction of its real estate project. The entrusted loans were all unsecured and bore interest at 7.74% per annum. The entrusted loans were all repaid during the year ended 31 December 2018.

(ii) The entrusted loans to Wenling Mingcheng were used for the construction of its real estate project. The entrusted loans were all unsecured and bore interest ranged from 6.30% to 7.74% per annum. The entrusted loans were all repaid during the year ended 31 December 2018.

(iii) Provision of construction services from the related party, sales of products and provision of construction services to the related parties were made according to the published prices and conditions offered by the Group and the related parties to their major customers.

(b) Outstanding balances with related parties:

Group

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from related parties:				
Trade in nature				
Taizhou Luqiao Water Supply	39,796	37,679	20,867	20,691
Wenling Water Supply	39,025	51,389	49,458	37,057
Zhejiang Huangyan Water Supply	13,682	16,890	17,510	16,813
Yuhuan Water Supply	–	–	8,322	5,708
Wenling Mingcheng	–	–	–	308
Zhenjiang Mingji	–	1,526	–	–
Water Supply Hotel	–	157	–	–
Balance included in trade receivables	92,503	107,641	96,157	80,577
Non-trade in nature				
Wenling Mingcheng	–	100,227	–	–
Zhejiang Mingji	–	220,520	–	–
Balance included in prepayments, deposits and other receivables	–	320,747	–	–
	92,503	428,388	96,157	80,577
Due to a related party:				
Trade in nature				
Taizhou Modern Construction	–	–	–	2,080
Non-trade in nature				
Taizhou Modern Construction	–	–	–	1
Wenling Mingcheng	–	1,403	–	–
	–	1,403	–	2,081

The balances with related parties are unsecured, interest-free and repayable on demand except the loan balances due from Wenling Mingcheng and Zhejiang Mingji, which bear interest ranged from 6.30% to 7.74% per annum and were repayable on demand.

Company

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from subsidiaries:				
Trade in nature				
Taizhou City Water	17,868	25,768	13,833	12,399
Wenling Zeguo Water Supply	1,072	2,506	2,065	631
Balance included in trade receivables	18,940	28,274	15,898	13,030
Non-trade in nature				
Wenling Mingcheng	96,228	–	–	–
Binhai Water	–	565,483	565,483	565,483
Zhejiang Mingji	14,033	–	–	–
Balance included in prepayments, other receivables and other assets	110,261	565,483	565,483	565,483
Prepayments to subsidiaries:				
Trade in nature				
Taizhou Modern Construction	651	1,368	–	–
	129,852	595,125	581,381	578,513
Due from related parties:				
Trade in nature				
Zhejiang Huangyan Water Supply	13,682	16,890	17,510	16,813
Taizhou Luqiao Water Supply	10,401	8,583	2,853	2,825
Balance included in trade receivables	24,083	25,473	20,363	19,638
Due to subsidiaries:				
Trade in nature				
Taizhou Modern Construction	32	541	–	–
Non-trade in nature				
Taizhou City Water	320,000	290,000	290,000	320,000
	320,032	290,541	290,000	320,000
Due to related parties:				
Trade in nature				
Taizhou Modern Construction	–	–	–	1,327

The balances with subsidiaries and related parties are unsecured, interest-free and repayable on demand except the loan balances due from Wenling Mingcheng, Zhejiang Mingji and Binhai Water which bear interest ranged from 2.80% to 7.74% per annum and were repayable on demand.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	3,276	3,279	2,648	1,488	1,539
Pension scheme contributions	66	93	93	75	90
Total compensation paid to key management personnel	3,342	3,372	2,741	1,563	1,629

Further details of directors', chief executive's and supervisors' emoluments are included in note 8 to the Historical Financial Information.

39. 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

Financial assets

2016

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	10	–	10
Trade receivables	–	125,447	125,447
Financial assets included in prepayments, other receivables and other assets	–	22,853	22,853
Cash and cash equivalents	–	830,163	830,163
	10	978,463	978,473

2017

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	164,979	164,979
Financial assets included in prepayments, other receivables and other assets	334,871	334,871
Pledged deposits	10,829	10,829
Cash and cash equivalents	485,785	485,785
	996,464	996,464

2018

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	109,190	109,190
Financial assets included in prepayments, other receivables and other assets	13,726	13,726
Pledged deposits	14,877	14,877
Cash and cash equivalents	314,398	314,398
	452,191	452,191

As at 30 June 2019

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	85,975	85,975
Financial assets included in prepayments, other receivables and other assets	7,977	7,977
Pledged deposits	16,693	16,693
Cash and cash equivalents	340,591	340,591
	451,236	451,236

Financial liabilities at amortised cost

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	286,338	85,444	68,471	60,378
Financial liabilities included in other payables and accruals	45,327	83,458	123,455	146,550
Interest-bearing bank and other borrowings	1,668,297	1,316,327	1,004,786	1,300,000
Lease liabilities	617	1,760	19,291	5,380
	2,000,579	1,486,989	1,216,003	1,512,308

Company

Financial assets

2016

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	56,993	56,993
Financial assets included in prepayments, other receivables and other assets	202,904	202,904
Cash and cash equivalents	600,923	600,923
	860,820	860,820

2017

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	75,066	75,066
Financial assets included in prepayments, other receivables and other assets	622,308	622,308
Cash and cash equivalents	48,474	48,474
	745,848	745,848

2018

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	51,321	51,321
Financial assets included in prepayments, other receivables and other assets	578,725	578,725
Cash and cash equivalents	42,497	42,497
	672,543	672,543

As at 30 June 2019

	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*
Trade receivables	43,409	43,409
Financial assets included in prepayments, other receivables and other assets	575,096	575,096
Cash and cash equivalents	37,666	37,666
	656,171	656,171

Financial liabilities at amortised cost

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	101,427	81,309	67,804	59,969
Financial liabilities included in other payables and accruals	332,706	293,928	293,367	330,066
Interest-bearing bank and other borrowings	726,297	631,327	587,786	565,000
	1,160,430	1,006,564	948,957	955,035

40. FAIR VALUE AND FAIR VALUE OF HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank and other borrowings and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

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.

Management has assessed that the fair values of the non-current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2016, 2017 and 2018 and 30 June 2019.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other 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 trade receivables and trade 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. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
	RMB'000	*RMB'000*
Year ended 31 December 2016		
RMB	50	(1,000)
RMB	(50)	1,000
Year ended 31 December 2017		
RMB	50	(704)
RMB	(50)	704
Year ended 31 December 2018		
RMB	50	(624)
RMB	(50)	624
Six months ended 30 June 2019		
RMB	50	(2,354)
RMB	(50)	2,354

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Maximum exposure and year-end staging as at 31 December 2016, 2017 and 2018 and 30 June 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2016, 2017 and 2018 and 30 June 2019.

31 December 2016

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	175,284	175,284
Financial assets included in prepayments, other receivables and other assets					
– Normal**	22,853	–	–	–	22,853
– Doubtful**	80,901	–	–	–	80,901
Cash and cash equivalents					
– Not yet past due	830,163	–	–	–	830,163
	933,917	–	–	175,284	1,109,201

31 December 2017

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	215,423	215,423
Financial assets included in prepayments, other receivables and other assets					
– Normal**	334,875	–	–	–	334,875
Pledged deposits					
– Not yet past due	10,829	–	–	–	10,829
Cash and cash equivalents					
– Not yet past due	485,785	–	–	–	485,785
	831,489	–	–	215,423	1,046,912

31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	159,176	159,176
Financial assets included in prepayments, other receivables and other assets					
– Normal**	13,728	–	–	–	13,728
Pledged deposits					
– Not yet past due	14,877	–	–	–	14,877
Cash and cash equivalents					
– Not yet past due	314,398	–	–	–	314,398
	343,003	–	–	159,176	502,179

30 June 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	136,657	136,657
Financial assets included in prepayments, other receivables and other assets					
– Normal**	7,973	–	–	–	7,973
Pledged deposits					
– Not yet past due	16,693	–	–	–	16,693
Cash and cash equivalents					
– Not yet past due	340,591	–	–	–	340,591
	365,257	–	–	136,657	501,914

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

	31 December 2016					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	129,806	276,847	304,699	1,700,657	2,412,009
Trade payables	132,501	153,837	–	–	–	286,338
Financial liabilities included in other payables and accruals	39,683	5,314	330	–	–	45,327
Lease liabilities	617	–	–	–	–	617
	172,801	288,957	277,177	304,699	1,700,657	2,744,291
Financial guarantees issued:						
Maximum amount guaranteed *(note 34)*	176,440	–	–	–	–	176,440

	31 December 2017					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	12,568	411,869	158,181	1,311,953	1,894,571
Trade payables	44,023	41,421	–	–	–	85,444
Financial liabilities included in other payables and accruals	79,805	3,375	278	–	–	83,458
Lease liabilities	1,760	–	–	–	–	1,760
	125,588	57,364	412,147	158,181	1,311,953	2,065,233

	31 December 2018					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	32,007	27,658	183,390	1,376,265	1,619,320
Trade payables	25,707	42,764	–	–	–	68,471
Financial liabilities included in other payables and accruals	116,911	6,344	200	–	–	123,455
Lease liabilities	19,291	–	–	–	–	19,291
	161,909	81,115	27,858	183,390	1,376,265	1,830,537

	30 June 2019					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	13,081	39,235	219,207	2,102,128	2,373,651
Trade payables	21,338	39,040	–	–	–	60,378
Financial liabilities included in other payables and accruals	137,555	8,085	910	–	–	146,550
Lease liabilities	5,380	–	–	–	–	5,380
	164,273	60,206	40,145	219,207	2,102,128	2,585,959

Company

	31 December 2016					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	81,392	36,493	131,804	881,270	1,130,959
Trade payables	74,684	26,743	–	–	–	101,427
Financial liabilities included in other payables and accruals	332,687	19	–	–	–	332,706
	407,371	108,154	36,493	131,804	881,270	1,565,092

	31 December 2017					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	27,119	60,672	86,121	865,450	1,039,362
Trade payables	41,942	39,367	–	–	–	81,309
Financial liabilities included in other payables and accruals	293,851	77	–	–	–	293,928
	335,793	66,563	60,672	86,121	865,450	1,414,599

	31 December 2018					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	26,797	11,865	63,280	849,630	951,572
Trade payables	25,489	42,315	–	–	–	67,804
Financial liabilities included in other payables and accruals	293,118	79	170	–	–	293,367
	318,607	69,191	12,035	63,280	849,630	1,312,743

	30 June 2019					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	–	3,955	11,865	63,280	841,785	920,885
Trade payables	21,033	38,936	–	–	–	59,969
Financial liabilities included in other payables and accruals	329,281	102	684	–	–	330,067
	350,314	42,993	12,549	63,280	841,785	1,310,921

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

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. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, other liabilities, trade payables, other payables and accruals, lease liabilities, less cash and cash equivalents and pledged deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	1,668,297	1,316,327	1,004,786	1,300,000
Other liabilities	508	1,110	1,086	543
Trade payables	286,338	85,444	68,471	60,378
Other payables and accruals	498,962	151,947	160,680	177,901
Lease liabilities	617	1,760	19,291	5,380
Less: Cash and cash equivalents	(830,163)	(485,785)	(314,398)	(340,591)
Pledged deposits	–	(10,829)	(14,877)	(16,693)
Net debt	1,624,559	1,059,974	925,039	1,186,918
Equity attributable to owners of the parent	347,459	409,239	519,689	566,029
Total capital and net debt	1,972,018	1,469,213	1,444,728	1,752,947
Gearing ratio	82%	72%	64%	68%

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2019.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to the owners of the parent as at 30 June 2019 as if it had taken place on 30 June 2019.

The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the parent has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2019 or any future date. It is prepared based on our consolidated net tangible assets attributable to the owners of the parent as at 30 June 2019 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the parent does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the parent as at 30 June 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share	
	RMB'000 (Note 1)	*RMB'000 (Note 2)*	*RMB'000 (Note 3)*	*RMB (Note 3)*	*HK$ equivalent (Note 4)*
Based on an Offer Price of HK$4.21 per Share	566,029	158,017	724,046	3.62	4.04
Based on an Offer Price of HK$5.01 per Share	566,029	192,625	758,654	3.79	4.23

Notes:

(1) The consolidated net tangible assets attributable to owners of the parent as at 30 June 2019 is extracted from the Accountants' Report, which is based on the audited consolidated equity attributable to owners of the parent as at 30 June 2019 of RMB566,029,000.

(2) The estimated net proceeds from the Global Offering are based on the estimated offer price of HK$4.21 per Share or HK$5.01 per Share, being the low-end price or high-end price, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expense of RMB201,000 which have been charged to profit or loss prior to 30 June 2019) and do not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the amounts stated in Hong Kong dollars are converted into Renminbi at the rate of HK$1.00 to RMB0.89657. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share is calculated based on 200,000,000 Shares in issue assuming that the Global Offering has been completed on 30 June 2019.

(4) For the purpose of the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.89657. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the pro forma financial information of the Group.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors of Taizhou Water Group Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Taizhou Water Group Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2019, and related notes as set out on pages II-1 and II-2 of the prospectus dated 17 December 2019 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 notes 1 to 4 on pages II-1 and II-2 of the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 30 June 2019 as if the transaction had taken place at 30 June 2019. 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 30 June 2019, on which an accountants' 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 ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global 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 accountants' judgment, having regard to the reporting accountants' 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

17 December 2019

TAXATION IN THE PRC

TAXATION ON HOLDERS OF SECURITIES

The following is a summary of certain PRC taxation consequences of the ownership of H Shares by an investor who purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material taxation consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special rules. This summary is based on the PRC tax laws as in effect on the date as of the date of this prospectus, all of which are subject to change (or changes in interpretation) and may have retroactive effect.

This section of this prospectus does not address any aspects of PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their respective tax advisors regarding the PRC taxation consequences arising from the ownership and disposal of H Shares.

Dividend Tax

Individual Investors

According to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法》) (the "**Individual Income Tax Law**") promulgated on 10 September 1980, as amended on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007, 30 June 2011, and 31 August 2018 and the Rules for Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法實施條例》) (the "**Implementation Rules of Individual Income Tax Law**") promulgated on 28 January 1994, as amended on 19 December 2005, 18 February 2008, 19 July 2011, and 18 December 2018, the receipt of dividends by individuals is subject to an individual income tax of 20%.

According to the Notice of Temporarily Exempt Individuals from Individual Income Tax on Income From Stock Transfer (《財政部、國家税務總局關於個人轉讓股票所得繼續暫免徵收個人所得税的通知》) (Caishui [1998] No. 61), since 1 January 1997, personal income from the transfer of shares in listed companies has been temporarily exempt from individual income tax. Later on 31 December 2009, the Issues Relating to Levying of Individual Income Tax on Income from Transfer of Moratorium Shares of Listed Companies by Individuals (《關於個人轉讓上市公司限售股所得徵收個人所得税有關問題的通知》) (Caishui [2009] No. 167) took into effect, which stipulates that individual income from the transfer of shares of listed companies on domestic related stock exchanges will continue to be exempted from individual income tax. However, the relevant restricted sale shares as defined in the Supplementary Notice on Issues Relating to Levying of Individual Income Tax on Income from Transfer of Moratorium Shares of Listed Companies by Individuals (《關於個人轉讓上市公司限售股所得徵收個人所得税有關問題的補充通知》) (Caishui [2010] No. 70) are excepted.

Meanwhile, pursuant to the Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (《關於上市公司股息紅利差別化個人所得税政策有關問題的通知》) (Caishui [2015] No. 101) issued by the MOF, the SAT and the

CSRC on 7 September 2015 and effective from 8 September 2015, for shares of listed companies obtained by individuals from public offering and the secondary market, where the holding period exceeds one year, the dividends shall be exempted from individual income tax; for shares of listed companies obtained by individuals from public offering and the secondary market, where the holding period is less than one month (including one month), the dividend shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (including one year), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above.

According to the Circular on the Individual Income Tax Collection and Administration after the Guo Shui Fa [1993] No. 045 Document is Abolished (《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》) (Guo Shui Han [2011] No. 348) issued by the SAT on 28 June 2011, if a non-foreign-invested enterprise in PRC listed in Hong Kong, the individual investors of overseas resident can enjoy relevant tax preference according to the tax treaties signed by the country in which these investors are tax residents and the PRC and the applicable tax arrangements between the Mainland China and Hong Kong (Macau). The non-foreign-invested enterprises in PRC ("**relevant non-foreign invested enterprises in China**") who has listed in Hong Kong shall withhold a 10% individual income tax on the dividend paid to individual investors of overseas resident ("**relevant individual investors**") without applying to PRC tax authority. If the tax rate of 10% is not applicable, relevant non-foreign-invested enterprises in China shall (i) if the country of relevant individual investors has entered an income tax treaty with PRC which provides a tax rate lower than 10%, relevant non-foreign-invested enterprises in China can apply for the preference on behalf of these investors, and the excess tax shall be returned subject to the approval of the competent tax authority; (ii) if the country of relevant individual investors has entered an income tax treaty with PRC which provides a tax rate higher than 10% but lower than 20%, relevant non-foreign-invested enterprises in China shall withhold tax based on the treaty without application; (iii) if the country of relevant individual investors has entered no income tax treaty with PRC or in other cases, relevant non-foreign-invested enterprises in China shall withhold a 20% individual income tax.

Enterprise Investors

According to the EIT Law and the Implementation Rules to the Enterprise Income Tax Law (《中華人民共和國企業所得税法實施條例》) issued on 6 December 2007 by the State Council and taking effect on 1 January 2008 and as amended on 23 April 2019 by Decision of the State Council on Revising Some Administrative Regulations (《國務院關於修改部分行政法規的決定》) (Order No. 714 of the State Council), if the non-resident enterprise has no institution or operating site in PRC or their income sourced from the PRC is irrelevant to the institution or operating site located in the PRC, an enterprise income tax of 10% shall be paid on the income sourced from PRC. The payable income tax on income specified hereof obtained by non-resident enterprises shall be subject to tax with the payer as the withholding agent. The tax payment shall be withheld from the amount paid or the payable amount due from each tax payment and payable amount of the withholding agent.

According to the Circular of the State Administration of Taxation on the Withholding and Remitting of Enterprise Income Tax on the Dividend Distributed by PRC Resident Enterprise to Overseas H-Share Non-resident Enterprise (Guo Shui Han [2008] No. 897) (《國家税務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》) issued by the SAT and taking effect on 6 November 2008, a PRC resident enterprise shall withhold an enterprise income tax of 10% when distributing dividends in and after 2008 to H-share holders of overseas non-resident enterprises. The withholding tax can be reduced according to the treaty on the avoidance of double taxation after applying and being approved.

According to the Arrangement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Income Tax between the Mainland China and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) signed by the PRC government and Hong Kong on 21 August 2006 in regard to income tax issues, and the second protocol, third protocol and forth protocol signed on 30 January 2008, 27 May 2010, 1 April 2015 respectively, the PRC government can levy on the dividend payable by a PRC company to Hong Kong residents (including individuals and legal entities). If Hong Kong residents hold at least 25% stock rights in a PRC company, the tax rate cannot exceed 5% of the total dividend payable, while in other circumstances, the tax rate shall be equal to 10% of the total dividend.

Tax Treaties

Investors who are not PRC residents and reside in countries or regions which have entered into treaties for avoidance of double taxation with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has entered into treaties for avoidance of double taxation with a number of countries and regions including Hong Kong, Macau, Austria, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the PRC tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the PRC tax authorities.

Based on the Notice of the State Administration of Taxation on Issues relating to the Implementation of the Dividend Terms of the Taxation Agreements ([Guo Shui Han [2009] No. 81]) (《國家税務總局關於執行税收協定股息條款有關問題的通知》) promulgated and came into effect on 20 February 2009, unless certain conditions are met, the shareholders of PRC companies are not entitled to special tax treatment for its distribution of dividends under the relevant taxation treaties. For instance, the recipient of dividends shall be eligible under relevant tax treaties and shall directly holds certain shares and shares with voting rights in the PRC company under pertinent tax treaties within 12 months prior to distribution of dividends. Further, according to the Administrative Measures on Treatment under Tax Treaties of Non-Resident (《非居民納税人享受税收協定待遇管理辦法》) promulgate on 27 August 2015 and came into effect on 1 November 2015 and amended on 15 June 2018, relevant tax treatment is available only after approval of competent local tax authorities.

Shanghai-Hong Kong Stock Connect Taxation Policy

On 31 October 2014, the MOF, the SAT and the CSRC jointly issued the Circular on the Relevant Taxation Policies regarding the Pilot Program for Linking the Stock Markets in Shanghai and Hong Kong (《財政部、國家税務總局、中國證券監督管理委員會關於滬港股票市場交易互聯互通機制試點有關税收政策的通知》) (Cai Shui [2014] No. 81) (hereinafter as "**Shanghai-Hong Kong Stock Connect Taxation Policy**") which clarified the relevant taxation policy under Shanghai-Hong Kong Stock Connect.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy and the Circular on Continuing the Implementation of Individual Income Tax Policy regarding the Pilot Program for Linking the Stock Markets in Shanghai and Hong Kong (《關於繼續執行滬港股票市場交易互聯互通機制有關個人所得税政策的通知》) (Cai Shui [2017] No.78) issued on 1 November 2017 and effective from 11 November 2017, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect from 17 November 2014 to 4 December 2019. Business tax will be temporarily exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by mainland individual investors through Shanghai-Hong Kong Stock Connect. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by H-share companies at the tax rate of 20% by applying to the CSDCC for the latter to provide the former with the register of the mainland individual investors; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by CSDCC at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of CSDCC by producing the tax credit document.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy and the Circular on Continuing the Implementation of Individual Income Tax Policy regarding the Pilot Program for Linking the Stock Markets in Shanghai and Hong Kong, enterprise income tax will be levied according to law on transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect. Business tax will be exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by investors of mainland entities through Shanghai-Hong Kong Stock Connect. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-share companies will not withhold dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax by themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Stock Exchange.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, mainland investors who trades, inherits, and gifts shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDCC and HKSCC may collect the abovementioned stamp duty on each other's behalf.

Shenzhen-Hong Kong Stock Connect Taxation Policy

On 5 November 2016, the MOF, the SAT and the CSRC jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program for Linking the Stock Markets in Shenzhen and Hong Kong (《根據財政部、國家税務總局、中國證券監督管理委員會關於深港股票市場交易互聯互通機制試點有關税收政策的通知》) (Cai Shui [2016] No. 127) (hereinafter as "**Shenzhen-Hong Kong Stock Connect Taxation Policy**") which clarified the relevant taxation policy under Shenzhen-Hong Kong Stock Connect.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect from 5 December 2016 to 4 December 2019. VAT tax will be temporarily exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by mainland individual investors through Shenzhen-Hong Kong Stock Connect during the period of the pilot program of replacing business tax with VAT. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, individual income tax is withheld by H-share companies at the tax rate of 20% by applying to the CSDCC for the latter to provide the former with the register of the mainland individual investors; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, individual income tax is withheld by CSDCC at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of CSDCC by producing the tax credit document.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, enterprise income tax will be levied according to law on transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect. VAT tax will be exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by investors of mainland entities through Shenzhen-Hong Kong Stock Connect during the period of the pilot program of replacing business tax with VAT. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-share companies will not withhold dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax by themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Stock Exchange.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, mainland investors who trades, inherits, and gifts shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDCC and HKSCC may collect the abovementioned stamp duty on each other's behalf.

Capital Gains Tax

Individual Investors

According to the Individual Income Tax Law and its implementation regulations, gains realized on the sale of equity interests in PRC resident enterprises are subject to the income tax at a rate of 20%, unless such tax is reduced or exempted under relevant double taxation treaties.

Enterprise Investors

In accordance with the EIT Law and its implementation regulations, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced pursuant to applicable treaties or agreements on avoidance of double taxation.

Other Tax Issues in China

PRC Stamp Duty

According to the PRC Provisional Regulations on Stamp Tax (《中華人民共和國印花税暫行條例》) amended on 8 January 2011, the PRC stamp duty levied on the transfer of stocks of PRC listing companies is not applicable to the H-share purchased and disposed overseas by non-Chinese investors. The Detailed Rules on Implementation of the Tentative Regulations of the People's Republic of China on Stamp Tax (《中華人民共和國印花税暫行條例施行細則》) promulgated on 29 September 1988 and implemented on 1 October 1988 specifies that the PRC stamp duty is only applicable to documents having legal effect in PRC and governed by PRC laws.

Estate Duty

As far as PRC laws concerned, there is no estate duty applicable to non-residents holding H-share.

Main PRC Taxes of the Company

Income Tax

According to the EIT Law, enterprises and other organisations (excluding sole proprietorships and partnership enterprises) which generate income within the PRC shall pay enterprise income tax at the rate of 25% in principle.

Value-added Tax

Pursuant to the Pilot Plan for Levying Value-added Tax in Lieu of Business Tax (Cai Shui [2011] No. 110) (《營業税改徵增值税試點方案》) promulgated by the MOF and the SAT, effective on 16 November 2011, since 1 January 2012, the state started the pilot taxation reform of collecting VAT in lieu of business tax in certain regions and in certain pilot industries. The MOF and the SAT further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide since 1 August 2013. Pursuant to the Notice on Implementing the Pilot Plan for Levying Value-added Tax in Lieu of Business Tax Nationwide (Cai Shui [2016] No. 36) (《關於全面推開營業税改徵增值税試點的通知》) promulgated by the MOF and the SAT on 23 March 2016, starting from 1 May 2016, the pilot reform for the transition from business tax to VAT is implemented nationwide. On 19 November 2017, the State Council issued the Decision of the State Council on Abolishing the Interim Regulations of PRC on Business Tax and Amending the Interim Regulations of PRC on Value-Added Tax (《國務院關於廢止〈中華人民共和國營業税暫行條例〉和修改〈中華人民共和國增值税暫行條例〉的決定》) (Order No. 691 of the State Council), which officially abolished business tax, and amended the VAT Regulations.

According to the VAT Regulations, taxpayers that sell services or intangible assets shall be subject to a 6% tax rate unless otherwise stipulated thereof; taxpayers that sell goods, labor services or tangible personal property leasing services or import goods shall be subject to a 17% tax rate unless otherwise stipulated thereof; taxpayers that sell transport services, postal services, basic telecommunications services, construction services, or real property leasing services, sell real property, transfer the land use right, or sell or import certain goods such as grain and other agricultural products, books and publications, shall be subject to an 11% tax rate; taxpayers who export goods are subject to a zero tax rate unless otherwise specified by the State Council; domestic entities and individuals that sell services or intangible assets under the scope specified by the State Council across borders are subject to a zero tax rate.

According to the Circular 32, the abovementioned tax rates of 17% and 11% originally applicable to any taxpayer's VAT taxable sale or import of goods was adjusted to 16% and 10% respectively.

According to the Announcement 39, the abovementioned tax rates of 16% and 10% originally applicable to any taxpayer's VAT taxable sale or import of goods was adjusted to 13% and 9% respectively.

Foreign Exchange Control

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the requirements of the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996, implemented from 1 April 1996 and last revised on 5 August 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to the approval from the SAFE while capital account items are.

The Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) effective from 1 July 1996 further stipulates the regulations which any domestic institution, individual, or foreign institution situated in China and a foreigner coming to China should comply with the regulations with respect to the settlement and purchase of foreign exchange, opening of the foreign exchange account and making of external payments.

On 21 July 2005, PBOC issued the Announcement on Promoting the Reform of the Renminbi Exchange Rate Formation Mechanism (《中國人民銀行關於完善人民幣匯率形成機制改革的公告》), which announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar only. The PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day. This closing price will be used as the middle price for quoting the RMB exchange rate on the following business day. According to the Announcement on the Improvement of the Inter-bank Spot Foreign-Exchange Market (《中國人民銀行關於進一步完善銀行間即期外匯市場的公告》), since 4 January 2006, the PBOC improved the method of generating the middle price for quoting the RMB exchange rate by introducing an enquiry system while keeping the match-making system in the interbank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the RMB was transformed to a mechanism under which PBOC authorized the China foreign exchange trading system to determine and announce the middle price for quoting the RMB against foreign currency, based on the enquiry system, at 9:15 am on each business day.

On 26 December 2014, SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (SAFE Circular [2014] No. 54) (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), which came into effect on the day of issuance. According to SAFE Circular [2014] No. 54, a domestic issuer shall, within 15 business days after the completion of its overseas IPO, register with SAFE's local branch at the place of its incorporation. For domestic companies which shares are listed overseas, if any of its domestic shareholders intends to increase or decrease its shares in the company in accordance with the relevant provisions, such

domestic shareholder shall, within 20 business days before such increase or decrease, handle overseas shareholding registration formalities with the local foreign exchange authority. The SAFE branch shall issue a certificate of overseas listing, based on which the domestic issuer can open a special account with a local bank to deposit proceeds from its overseas IPO. The proceeds from the overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of its prospectus and other public disclosure documents. On 9 June 2016, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (SAFE Circular [2016] No. 16) (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which came into effect on the day of issuance. According to the SAFE Circular [2016] No. 16, discretionary settlement of foreign exchange receipts under capital accounts refers to the case in which the foreign exchange receipts under capital accounts (including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing) subject to discretionary settlement as expressly prescribed in the relevant policies may be settled with banks according to the actual need of domestic institutions for business operations. Where the current regulations contain any restrictive provisions on the foreign exchange settlement of foreign exchange receipts under capital accounts of domestic institutions, such provisions shall prevail. Domestic institutions may, at their discretion, settle up to 100% of foreign exchange receipts under capital accounts for the time being. The SAFE may adjust the above proportion in due time according to balance of payments.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and Hong Kong company law, certain requirements of the Listing Rules and the Mandatory Provisions. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which is important to the potential investors.

PRC LAWS AND REGULATIONS

(a) The PRC legal system

The PRC legal system is composed of Constitution (as defined below), laws, administrative regulations, local regulations, autonomy regulations and separate rules, rules of State Council departments, rules of local governments and international treaties of which the PRC Government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for judicial reference and guidance. The PRC Constitution (《中華人民共和國憲法》) (the "**Constitution**"), enacted by the NPC, is the basis of the PRC legal system and has supreme legal authority.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "**Legislation Law**"), the NPC and the Standing Committee of the NPC (the "**Standing Committee of the NPC**") are empowered to exercise the legislative power of the State. The NPC enacts and amends basic laws governing criminal offenses, civil affairs, the State organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to enact administrative regulations based on the Constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the Constitution, laws and administrative regulations. The people's congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people's congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the Constitution, laws and administrative regulations.

The people's congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptation shall be made to the specific provisions on national autonomous areas in the Constitutions, national region autonomy law and other relevant laws and administrative regulations.

The ministries, commissions of the State Council, PBOC, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

According to the Constitution, the authority of the interpretation of laws shall be vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) effective from 10 June 1981, interpretation on the application of laws and decrees in court trails and the procuratorial work of the procuratorates shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

(b) The PRC judicial system

Under the Constitution and the Law of the PRC on the Organisation of the People's Courts (《中華人民共和國人民法院組織法》) which was taken effect on 1 January 1980 and last amended on 26 October 2018 and became effective on 1 January 2019, the judicial system in the PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may be organised into civil, criminal, and administrative tribunals. The intermediate people's courts may be organised into divisions similar to those of the basic people's courts, and may be further organized into other special divisions. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the

administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts of the same level and lower levels.

The people's courts adopt a "second instance as final" appellate system in the trail of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people's courts to the people's courts at the next higher level in accordance with the legal procedures. The people's procuratorate may raise protest to the people's court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**"), which was adopted on 9 April 1991 and last amended on 27 June 2017 and became effective on 1 July 2017, sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or performance of the contract, the place of the object of the action or locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

In general, a foreign individual, enterprise and organisation have the same litigation rights and obligations as a citizen, legal person and other organisation of the PRC. Should the judicial system of a foreign country limit the litigation rights of PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country.

When a party applies to a people's court for enforcing an effective judgment or ruling against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the social and public interests.

(c) The PRC Company Law, Special Regulations and Mandatory Provisions

On 29 December 1993, the PRC Company Law (the "**PRC Company Law**") was adopted by the standing committee of the Eighth NPC, which came into effect on 1 July 1994 and was amended for the first time on 25 December 1999, the second time on 28 August 2004, the third time on 27 October 2005, the fourth time on 28 December 2013, and fifth time on 26 October 2018. The PRC Company Law regulates the organisation and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors.

The Special Regulations were promulgated by the State Council, and took effect on 4 August 1994. The Special Regulations were formulated according to the then applicable Article 85 and Article 155 of the PRC Company Law and apply to the overseas share issue and listing of joint stock limited companies.

The Mandatory Provisions were promulgated and implemented by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on 27 August 1994, prescribing the mandatory provisions which must be incorporated into the articles of association of joint stock limited companies incorporated in the PRC to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (which are summarised in Appendix V — Summary of the Articles of Association).

Main provisions in PRC Company Law, Special Regulations and Mandatory Provisions are summarised as follows:

General provisions

A joint stock limited liability company (hereinafter referred to as "**company**" in this section) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with laws, regulations, public and commercial ethics. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. It shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, and the registered capital is the amount of total paid-up capital as registered with the company registration authority. The promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed by law if such assets are to be contributed as capital.

The latest revision of the PRC Company Law no longer imposes restrictions on minimum amount or payment deadlines of paid-up registered capital. However, if there are laws, administrative regulations and other requirements of the State Council that provide for payment deadlines of paid-up registered capital or minimum amount of a limited liability company and joint stock company, such laws, administrative regulations and requirements shall prevail.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of promotors and subscribers holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting include adopting the draft articles of association proposed by the promoters and electing the members of the board of directors and the board of supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

Where after the incorporation of a company, a promoter fails to pay in full the subscription moneys in accordance with the provisions of the company's articles of association, he/she shall pay them in full; and the other promoters shall bear joint and several liability. Where it is discovered that the actual evaluation of the non-currency property used as capital contributions for the incorporation of the company is obviously less than the evaluation prescribed by the company' articles of association, the promoters making such contributions shall make up the difference; and the other promoters shall bear joint and several liability.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all debts and expenses incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share capital

The promoters of a company can make capital contributions in cash or in kind that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value, except for the property that is not allowed to be used as capital contributions, as is provided for by laws or administrative regulations.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau Special Administrative Region, China and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Qualified foreign institutional investors approved by the CSRC may make investments in the PRC securities market.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value.

The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. No modification registration shall be made to the register of shareholders within 30 days prior to the shareholders' meeting being held or within five days prior to the benchmark date set for the purpose of distributing dividends. However, if there are laws that provide for the change of registers of members for a listed company, such provisions shall prevail.

Increase in share capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the PRC Securities Law (《中華人民共和國證券法》) (the "**Securities Law**") provides that the company shall: (i) have a sound organisational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council. After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

Reduction of share capital

A company may reduce its registered capital in accordance with the following procedures stipulated by the PRC Company Law: (i) the company shall prepare a balance sheet and an inventory of assets; (ii) the reduction of registered capital must be approved by shareholders in the general meeting; (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed; (iv) creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; (v) the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of:

(i) reducing the registered capital of the company;

(ii) merging with another company holding shares of this company;

(iii) carrying out an employee stock ownership plan or equity incentive plan by its own shares;

(iv) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting;

(v) converting convertible corporate bonds into its own shares issued by a listed company; and

(vi) share purchasing is necessary for a listed company to maintain its company value and protect its shareholders' equity.

A resolution of a shareholders' general meeting is required for the share purchase by a company under either of the circumstances stipulated in item (i) or item (ii) above; for a company's share purchase under any of the circumstances stipulated in item (iii), item (v) or item (vi) above, a resolution of the company's board of directors shall be made by a two-third majority of directors attending the meeting according to the provisions of the company's articles of association or as authorised by the shareholders' meeting.

The shares purchased under the circumstance stipulated in item (i) hereof shall be deregistered within ten days from the date of purchase of shares; the shares shall be assigned or deregistered within six months if the share buyback is made under the circumstances stipulated in either item (ii) or item (iv); and the shares held in total by a company after a share

purchase under any of the circumstances stipulated in item (iii), item (v) or item (vi) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

Listed companies shall perform their obligation of information disclosure according to the Securities Law if purchasing its own shares. If the share purchase under the circumstances stipulated in item (iii), item (v) or item (vi) hereof, centralized trading shall be adopted publicly.

A company shall not accept its own shares as the subject of pledge.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock exchanges established pursuant to laws or by other means as stipulated by the State Council. Registered shares shall be transferred by means of endorsement by shareholders or by such other means as provided for by laws or administrative regulations; and after such transfer, the company shall register the names or titles and domiciles of the transferees in its roster of shareholders. Except as otherwise provided by any PRC laws or regulations, no registration of modification to the roster of shareholders as stipulated by the preceding paragraph shall be made within the period of 20 days prior to the convening of shareholders general assembly or within the period of 5 days prior to the record date on which the company decides to distribute dividends. Subject to the Mandatory Provisions, the shareholders' register may not be modified within the 30 days preceding the shareholder's general meeting or within the 5 days preceding any base date for determination of dividend distributions.

Transfer of bearer shares shall become effective immediately after a shareholder delivers such share certificates to a transferee.

Shares held by the promoters of a company shall not be transferred within one year from the date the company is incorporated. Directors, supervisors and senior managers of a company shall declare to the company the numbers and changes of the company's shares held by them, and the number of the company's shares annually transferred by each of them during their term of office shall not exceed 25 percent of the total number of the company's shares held by them respectively; The company's shares held by the persons mentioned above shall not be transferred within six months after they leave office. The company's articles of association may stipulate other restrictive provisions on the transfer of the company's shares held by the directors, supervisors and senior managers of the company.

Shareholders

The articles of association of a company set forth the shareholders' rights and obligations are binding on all the shareholders. Pursuant to the PRC Company Law and the Mandatory Provisions, a shareholder's rights include:

(i) the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in proportion to the amount of shares held;

(ii) the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;

(iii) the right to inspect the company's articles of association, shareholders' registers, records of company's debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;

(iv) Where any director or senior officer damages the shareholders' interests by violating any laws, administrative regulations, or the articles of association, the shareholders may initiate a legal action in the people's court;

(v) the right to receive dividends based on the number of shares held;

(vi) the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages;

(vii) any other shareholders' rights specified in laws, administrative regulations, other regulatory documents and the articles of association.

The obligations of shareholders include: (i) abide by the articles of association of the company; (ii) pay the subscription monies in respect of shares subscribed for; (iii) be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; (iv) no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; (v) no abuse of the independent status of the company as a legal person and its limited liability to damage the interests of the creditors of the company; (vi) and any other obligation specified in the articles of association of the company.

Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following functions and powers:

(i) to decide on the company's operational policies and investment plans;

(ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;

(iii) to consider and approve reports of the board of directors;

(iv) to consider and approve reports of the board of supervisors;

(v) to consider and approve the company's proposed annual financial budget and final accounts;

(vi) to consider and approve the company's proposals for profit distribution and loss recovery plans;

(vii) to decide on any increase or reduction in the company's registered capital;

(viii) to decide on the issue of bonds by the company;

(ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;

(x) to amend the articles of association of the company; and

(xi) other powers specified in the articles of association of the company.

A shareholders' annual general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

(i) the number of directors is less than the number provided by law or less than two-thirds of the number specified in the articles of association of the company;

(ii) the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;

(iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;

(iv) when deemed necessary by the board of directors;

(v) as suggested by the board of supervisors;

(vi) other matters required by the articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Subject to the PRC Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer shares, the time and venue of and matters to be considered at the meetings shall be announced 30 days before the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Pursuant to the Company Law and the Mandatory Provisions, resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division, dissolution, liquidation, increase or reduction of registered capital, the issue of any kinds of shares, warrants of other similar securities or debentures, the change in the form of the company, the amendment to the articles of association or other matters considered by the shareholders' general meeting by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf and enter into a power of attorney which sets forth the scope of exercising the voting rights. There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class shareholders. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Where holders of bearer shares intend to attend the shareholders' general assembly, they shall deposit their share certificates with the company for a period beginning from five days prior to the convening of the meeting to the end of the meeting.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members, and there can be staff representatives of the company. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors exercises the following functions and powers:

(i) to convene the shareholders' general meeting and report on its work to the shareholders;

(ii) to implement the resolution of the shareholders' general meeting;

(iii) to decide on the company's business plans and investment plans;

(iv) to formulate the company's proposed annual financial budget and final accounts;

(v) to formulate the company's proposals for profit distribution and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(vii) to prepare plans for the merger, division or dissolution and change in the form of the company;

(viii) to decide on the company's internal management structure;

(ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;

(x) to formulate the company's basic management system; and

(xi) other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not act as a director of a company:

(i) persons without capacity or with restricted capacity to undertake civil liabilities;

(ii) persons who have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence due to the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and has been ordered to close down by law and such persons were personally liable, and less than three years have elapsed since the date of the revocation of the business license;

(v) persons who have a relatively large amount of debt due and outstanding; or

(vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers: to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and to check on the implementation of the resolutions of the board of directors.

Supervisors

A company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors. Employee representatives to serve as members of the board of supervisors shall be democratically elected by the employees of the company through the employee representatives' assembly, the employees' assembly or otherwise. The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over board of supervisors meetings. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over board of supervisors meetings. In the event that the vice chairman of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over board of supervisors meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The board of supervisors exercises the following functions and powers:

(i) check the financial affairs of the company;

(ii) supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;

(iii) require the director or senior manager to make corrections if his act is detrimental to the interests of the company;

(iv) propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;

(v) put forward proposals at shareholders' general meetings;

(vi) initiate actions against directors or senior management according to the Company Law;

(vii) other functions and duties as provided for by the articles of association.

Supervisors may attend meetings of the board of directors as non-voting attendees, and may raise enquiries or put forward suggestions about matters to be decided by the board of directors. The board of supervisors or, where there is no board of supervisors, the supervisors of a company find that the company is running abnormally, they may commence an investigation. Where necessary, they may, at the company's expense, hire an accounting firm to assist with the investigation.

Managers and senior management

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

(i) manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;

(ii) arrange for the implementation of the company's annual business and investment plans;

(iii) formulate plans for the establishment of the company's internal management structure;

(iv) formulate the basic administration system of the company;

(v) formulate the company's internal rules;

(vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) decide on the appointment or dismissal of executive personnel other than those whose appointment or dismissal is to be decided by the board of directors; and

(viii) other powers conferred by the board of directors or the company's articles of association.

Where the functions and powers of the manager are otherwise provided in the articles of association, the articles of association shall prevail. The manager shall attend meetings of the board of directors as a non-voting attendee.

The Special Regulations and the Mandatory Provisions provide that the other senior management personnel of a company include the financial officers, secretary of the board of directors of listed company and other executives as specified in the articles of association of the company.

Duties of directors, supervisors, managers and other senior management

Directors, supervisors, managers and other senior management of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties honestly and diligently. Directors, supervisors, managers and other senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

(i) misappropriation of company funds;

(ii) deposit of company funds into accounts under his own name or the name of other individuals;

(iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;

(iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;

(v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;

(vi) accepting for their own benefit commissions from a third party for transactions dealing with the company;

(vii) unauthorised divulgence of confidential business information of the company;

(viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of the foregoing provisions shall revert to the company.

A director, supervisor, manager and other senior management who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

Where the board of shareholders or the general meeting requires any director, supervisor or senior officer to attend the meeting as a non-voting attendee, he shall do so and shall answer the shareholders' inquiries.

Directors and senior management shall faithfully provide relevant information and materials to the board of supervisors or to the supervisor(s) of a limited liability company with no board of supervisors, and may not obstruct the board of supervisors or any supervisor in the exercise of its functions and powers.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior management of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the responsible financial department of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited and verified as provided for by law.

A company shall make its financial statements available at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

The common reserve of a company comprises the statutory common reserve, the discretionary common reserve and the capital common reserve. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocating such profits to statutory common reserve. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manner.

The premium over the nominal value of the shares of the company on issuance and other amounts required by the relevant governmental authority to be treated as the capital common reserve shall be accounted for as capital common reserve. The capital common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital. The capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and retirement of auditors

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports. The accounting firm's term of office shall commerce from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders. The PRC Company Law regulates that the engagement of any accounting firm undertaking the audit of a company, and the termination of the engagement shall, pursuant to the company's articles of association, be decided by the shareholders' meeting, the general meeting or the board of directors. If there is a voting on a dismissal of the accounting firm, the accounting firm shall be entitled to make a statement. The company shall provide the accounting firm engaged with true and complete accounting proofs, account books, financial and accounting reports and other accounting materials, and may not refuse to provide or conceal any required information or make any false statements.

Distribution of profits

According to the PRC Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendments of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies' approval department authorised by the State Council and CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

Dissolution and liquidation

Under the PRC Company Law, a company shall be dissolved in any of the following events:

(i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

(ii) the shareholders' general meeting have resolved to dissolve the company;

(iii) the company is dissolved by reason of its merger or demerger;

(iv) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws; or

(v) in the event that the company encounters substantial difficulties in its operation and management and its continuance would cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two-thirds of voting rights in the case of companies with limited liability and more than two-thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation process shall commence within fifteen days after the occurrence of an event of dissolution.

Members of the liquidation committee of a joint stock limited company shall be composed of its directors or the person appointed by the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors may apply to the people's court for its establishment.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

(i) handle the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) notify creditors through notice or public announcement;

(iii) deal with and settle any outstanding business of the company;

(iv) pay any tax overdue;

(v) settle the company's financial claims and liabilities;

(vi) handle the surplus assets of the company after its debts have been paid off;

(vii) represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for endorsement. If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

Overseas listing

The shares of a company could be listed on overseas stock exchange after obtaining approval from the CSRC. In accordance with the Circular on Relevant Issues Concerning Enterprises' Application for Overseas Listing issued by the CSRC (《中國證券監督管理委員會關於企業申請境外上市有關問題的通知》) (the "**1999 Circular**") issued on 14 July 1999, domestic companies were required to achieve the following requirements for overseas listings: an annual after-tax profit of at least RMB60,000,000 for the latest year; net assets of not less than RMB400,000,000; a fundraising size of not less than US$50 million based on a reasonably expected price/earnings ratio.

The 1999 Circular was replaced by the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) (the "**New Guidelines**") which was issued on 20 December 2012, and came into force on 1 January 2013. The New Guidelines abolished the foregoing thresholds and stipulate that all joint stock companies legally incorporated under the PRC Company Law, on the basis of meeting the listing conditions of places of overseas listing, are entitled to apply to the CSRC for overseas share issuance and listing.

Under the New Guidelines, a PRC domestic company may submit its primary overseas listing application to overseas securities regulatory authorities and stock exchanges after the CSRC has accepted its oversea listing application for processing, and may submit its official application to overseas securities regulatory authorities and stock exchanges for hearing after the CSRC has examined and approved its overseas listing application. The approval document in respect of the overseas share issuance and listing from the CSRC is valid for 12 months.

According to the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies (CSRC [2019] No.22) (《H股公司境內未上市股份申請"全流通"業務指引》(中國證券監督管理委員會公告[2019]22號)), the unlisted shares of H-share companies (including (i) unlisted domestic shares held by domestic shareholders before overseas listing, (ii) unlisted domestic shares issued overseas after overseas listing, and (iii) unlisted shares held by foreign shareholders) are allowed to be listed and traded on the Stock Exchange, and it stipulates the application procedures for the full circulation of unlisted shares of H-share company in China.

On 26 December 2014, SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (SAFE Circular [2014] No. 54) (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), which came into effect on the day of issuance. According to SAFE Circular [2014] No. 54, a domestic issuer shall, within 15 working days after the completion of its overseas IPO, register with SAFE's local branch at the place of its incorporation.

Loss of H share certificates

In the event H share certificates in registered form are either stolen or lost, shareholder may, in accordance with the relevant provision set out in the Civil Procedure Law, apply to a people's court for a declaration that such certificates will no longer be valid. After such a declaration has been made, the shareholder may apply to the company for the issue of replacement certificates.

Merger and division

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved. As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within 10 days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within 30 days. The creditors may, within thirty days as of the receipt of the notice or within 45 days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within 30 days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "**Arbitration Law**") was passed by the Standing Committee of the NPC on 31 August 1994, became effective on 1 September 1995 and amended on 27 August 2009 and 1 September 2017. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer. In respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the articles of association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and those in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("**CIETAC**") in accordance with its rules or the Hong Kong International Arbitration Center ("**HKIAC**") in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) (the "**New York Convention**") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made.

HONG KONG LAWS AND REGULATIONS

(a) Summary of material differences between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance, Companies (WUMP) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. Our Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) Corporate existence

Under the Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or by way of stock flotation. The amended PRC Company Law, which came into effect on 26 October 2018, has no provisions on minimum registered capital of joint stock limited companies. Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

(ii) Share capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorised share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the Securities Law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification shall be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares ("**domestic shares**") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the PRC domestic investors and qualified foreign institutional investors. The overseas listed foreign shares ("**foreign shares**") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, and qualified domestic institutional

investors. However, qualified institutional investors and individual investors may trade shares via participating in the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the six-month lock-up on the company's issue of shares and the 12-month lock-up on a controlling shareholder's disposal of shares.

(iv) Financial assistance for acquisition of shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarised in Appendix V to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting; (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question; (iii) by agreement of all the members of a Hong Kong company; or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. Our Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares,

separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as at the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

(vi) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

(vii) Board of supervisors

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a board of supervisors but there is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of a company violates the laws, administrative regulations or articles of association of a company and thus infringe the shareholders' interests. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is

required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

(x) Notice of shareholders' meetings

Under the PRC Company Law, shareholders shall be notified no less than 20 days in advance of a general meeting of the time and place of the meeting and the matters to be considered at the meeting. Shareholders shall be notified no less than 15 days in advance of an extraordinary general meeting. For a limited company incorporated in Hong Kong, the minimum notice period of a general meeting other than an annual general meeting is 14 days and the notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at

a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) ***Financial disclosure***

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) ***Information on directors and shareholders***

The PRC Company Law gives the shareholders of a company the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, Shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) ***Receiving agent***

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) ***Corporate reorganisation***

Corporate reorganisations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (WUMP) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to sections 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under the PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

(xvii) ***Arbitration of disputes***

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

(xviii) ***Mandatory deductions***

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declares any dividends after taxation. The company may not be required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

(xix) ***Remedies of a company***

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the Listing Rules.

(xx) Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) ***Fiduciary duties***

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) ***Closure of register of shareholders***

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company.

(i) Compliance adviser

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorised representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

(iii) Process agent

Our Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalisation at the time of listing of not less than HK$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the company has an expected market capitalisation at the time of listing of over HK$10,000,000,000.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the company.

(vi) Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

(vii) Redeemable shares

Our Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(viii) Pre-emptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the company's articles of association, prior to (i) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (ii) any major subsidiary of the company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as at the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(ix) Supervisors

Our Company is required to adopt rules governing dealings by its Supervisors in securities of our Company in terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers issued by the Stock Exchange.

Our Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or its subsidiary: (i) the term of the

contract may exceed three years; or (ii) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and its Shareholders as a whole and advise Shareholders on how to vote.

(x) Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules or the Mandatory Provisions or the PRC Company Law.

(xi) Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the Administration for Industry and Commerce or other competent PRC authority; and
- for Shareholders only, copies of minutes of meetings of shareholders.

(xii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

*(xiii) **Statements in H Share certificates***

Our Company is required to ensure that all of its listing documents and H Share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and

- authorises our Company to enter into a contract on his behalf with each Director, Supervisors, managers and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

*(xiv) **Compliance with the PRC Company Law, the Special Regulations and the Articles of Association***

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

*(xv) **Contract between our Company and its Directors, officers and Supervisors***

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to our Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any disputes or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company between our Company and our Directors or officers and between a holder of H Shares and a Director or officer of our Company, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- disputes over who is a shareholder and over the share registrar do not have to be resolved through arbitration;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or officer with our Company on its own behalf and on behalf of each Shareholder; and

- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvi) ***Subsequent listing***

Our Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xvii) ***English translation***

All notices or other documents required under the Listing Rules to be sent by our Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xviii) ***General***

If any change in the PRC laws or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC laws or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of our Company's Listing.

(c) Other legal and regulatory provisions

Upon our Company's Listing, the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to our Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association, PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the securities arbitration rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(e) PRC legal matter

Our PRC Legal Adviser has confirmed that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. Any person wishing to have detailed advice on PRC laws and the laws of any jurisdictions is recommended to seek independent legal advice.

This appendix summarised our Articles of Association for the purpose of providing potential investors with an overview of it. As the information set out below is only a summary, it does not contain all of the information which may be important to potential investors.

Our Articles of Association were passed in the shareholders' general meeting held on 5 June 2019, amended by the resolutions of the shareholders' general meeting held on 8 November 2019 and will become effective on the date on which our H Shares are listed on the Stock Exchange.

(A) CLASSES OF SHARES

Shareholders holding different types of shares shall be shareholders of different classes.

Shareholders of different classes shall enjoy the rights and assume the obligations stipulated by laws, regulations, and our Articles of Association.

Except shareholders holding other types of shares, shareholders holding domestic shares and shareholders holding overseas-listed foreign shares are considered as shareholders of different classes.

Shareholders of different classes shall enjoy the same rights in any distribution in the form of dividends or any other form.

(B) DIRECTORS

- **Board**

The Board of the Company is accountable to the shareholders' general meeting, and shall exercise the functions and authorities in accordance with the laws, administrative regulations and our Articles of Association. The Board is comprised of 15 directors, of which the independent non-executive directors shall account for more than one third of the total members of the Board. The Board shall have one chairman and one vice chairman who shall both be held by directors of the Company, and shall be elected and removed by more than one-half of all directors of the Company.

The Board exercises the following functions and authorities:

— convening the shareholders' general meeting and reporting to the shareholders' general meeting;

— implementation of the resolutions of the shareholders' general meeting;

— decisions on our business plans and investment resolutions;

— formulation of proposals of our annual financial budgets and final accounts;

— formulation of profit distribution and loss recovery plan;

— formulation of plans of increase or reduction of registered capital, issuance of corporate bonds or other marketable securities and listing plan;

— formulation of proposals of material acquisition, repurchase of our Shares, or proposals of merger, division, dissolution or change of the legal form of our Company;

— decision, within the scope of the mandate granted by a shareholders' general meeting, on the company's external investments, acquisition and sale of assets, mortgage of assets, external guarantees, entrusted wealth management, connected transactions etc.;

— decisions on the establishment of internal management organisations of the Company;

— appointment and removal of the general manager and the secretary to the Board of the Directors;

— appointment and removal of the deputy general manager of the Company, chief accountant and other senior management upon the nomination by the general manager, and decision on the remuneration and punishment of such personnel;

— formulation of our fundamental management rules;

— formulation of amendments to our Articles of Association;

— proposals to the shareholders' general meeting for engagement, dismissal or discontinuance of the accounting firm for audit purposes;

— listening to the work reporting of the general manager and inspection of the general manager's work;

— other functions and authorities vested by laws, administrative regulations, departmental rules and our Articles of Association.

- **Chairman of Board**

The chairman of the Board shall exercise the following duties and powers:

— presiding over the shareholders' general meeting, and convening and presiding over the Board meeting;

— supervising and inspecting the execution and implementation of resolutions of the Board;

— signing certificates of shares, bonds and others marketable securities of the Company;

— signing important documents of the Board and other documents that shall be signed by the legal representative of the Company; and

— other duties and powers vested by laws, regulations, rules and the Articles of Association as well as authorised by the Board.

The vice chairman assists the chairman, and when the chairman of the Board cannot perform or fails to perform his/her duties and powers, the vice chairman shall act on his/her behalf orderly; when the vice chairman cannot perform or fails to perform his/her duties and powers, a director elected jointly by half or more of all the directors shall act on his/her behalf.

- **Remuneration, compensation or payment for loss of office**

The remuneration of the directors shall be subject to the approval of shareholders' general meeting. The Company shall sign written agreements with its directors and supervisors in the matter of remuneration with the prior approval of shareholders' general meeting. The matter of remuneration above includes:

— remuneration for positions as the Company's directors, supervisors or senior management;

— remuneration for positions as the directors, supervisors or senior management of subsidiary companies of the Company;

— remuneration for other services supporting the management of the Company and its subsidiary companies of the Company;

— compensation for a director or supervisor's loss of office or retirement.

Unless pursuant to the aforesaid agreements, the directors and supervisors shall not file any lawsuit against the Company and claim the benefits they shall obtain for the foregoing matters.

There shall be a provision in the contract in relation to remuneration made between the Company and our directors or supervisors that, in the event of a takeover of our Company, the directors or the supervisors shall be entitled to receive compensation or other payments as a result of loss of office or retirement, provided that prior approval shall have been obtained at a shareholders' general meeting.

A takeover of the Company referred to above means either:

— a takeover offer to all shareholders has been made by any person; or

— a takeover offer has been made by any person to enable the offeror to become the controlling shareholder as defined in our Articles of Association.

If the relevant director or supervisor does not comply with this provision, any sum so received by him/her shall belong to those who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by such director or supervisor and shall not be deducted from the sum to be received by him/her.

(i) Power to allot and issue shares

There is no provision in the Articles of Association empowering the directors, supervisors and senior management to allot and issue shares.

Any proposal to increase the registered capital of the Company must be submitted for approval by a special resolution of the shareholders' general meeting. Any such increase is subject to approval of relevant regulatory authorities.

(ii) Power to dispose of the assets of the Company or any subsidiary companies

When disposing of fixed assets, if the expected value of the fixed assets the Board intends to dispose of and the total value of the fixed assets already disposed of 4 months before such disposal proposal in aggregate exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed by the shareholders' general meeting, the Board must not dispose of or consent to the disposal of such fixed assets before such disposal is approved by the shareholders' general meeting.

The effectiveness of transactions conducted by the Company to dispose of fixed assets is not subject to the violation of the aforesaid item.

For our Articles of Association, disposal of fixed assets referred to above includes the transfer of certain interests of assets, but excludes the provision of security using fixed assets.

(iii) Loans to directors, supervisors and senior management

The Company shall not, directly or indirectly, provide loans or loan guarantees for its and its parent company's directors, supervisors, or senior management, nor shall it provide the same to their related persons.

The following situations are not subject to the above provisions:

— the provision of a loan or a guarantee for a loan by the Company to its subsidiary companies;

— the provision of a loan or a guarantee for a loan or any other funds by the Company to any of its directors, supervisors, or other senior management to meet expenditure incurred by him/her for the purpose of the Company or for the purpose of enabling him/her to perform his/ her duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and

— in the event that the normal business scope of the Company includes providing loans and loan guarantees, the Company may provide loans or loan guarantees for directors, supervisors, and senior management and their respective related persons based on normal commercial terms.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A loan guarantee made by the Company in breach of the above provisions shall not be enforceable on the Company, with the following exceptions:

— The lender is unaware about actual situation when a loan is extended to the respective associates of directors, supervisors and senior management members of the Company or its parent company; and

— Collaterals provided by the Company have legally been sold to a bona fide purchaser.

(iv) Financial assistance to purchase our shares

The Company or the subsidiary companies shall not offer any financial assistance at any time by any means to purchase or prospective purchasers for behaviors of purchasing or proposing to the Company's shares. Such purchasers of the Company's shares as mentioned above shall include those who directly or indirectly assume the obligations due to purchase of the shares of the Company.

The Company or the subsidiary companies shall not offer any financial assistance at any time by any means in order to reduce or discharge the obligations of the aforesaid obligator due to their purchase or intention of purchase of the Shares of the Company.

For these purposes, the "financial assistance" shall include but is not limited to the following meanings:

— gifts;

— guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than the compensation in respect of the Company's fault) or release or waiver of any rights;

— provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the novation of, or the assignment of rights arising under, such loan or agreement; and

— any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

The "obligations" herein referred to shall include the obligations of the obligator by signing a contract or making an arrangement (regardless of whether or not the aforesaid agreement or arrangement is enforceable, or whether or not such obligations are assumed by the obligator individually or jointly with any other person), or changing its financial condition in any other way.

The acts listed below are not prohibited by the Articles of Association of the Company, except those prohibited by relevant laws, administrative regulations, departmental rules and regulatory documents:

— where the Company provides the financial assistance truthfully for the interests of the Company and the main purpose of the financial assistance is not to purchase shares of the Company, or the financial assistance is an incidental part of an overall plan of the Company;

— lawful distribution of the Company's property in the form of dividends;

— distribution of dividends in the form of shares;

— reduction of registered capital, repurchase of shares, adjustment of shareholding structure, etc., in accordance with the Articles of Association of the Company;

— provision of a loan by the Company within its scope of business and in the ordinary course of its business (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is deducted from the Company's distributable profits); and

— provision of money by the Company for an employee shareholding scheme (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is deducted from the Company's distributable profits).

(v) Disclosure of interest in contracts with the Company

Where the Company's directors, supervisors and senior management are directly or indirectly materially relevant to the agreements, transactions or arrangements (except employment agreements between the Company and its directors, supervisors and senior management) signed or planned by the Company, they shall notify the Board of the nature and degree of such a relationship, no matter whether such matter, in general, shall be approved by the Board.

Unless the interested directors, supervisors and senior management of the Company have informed the Board of the matter as specified, and the Board has approved it at a meeting where they are not incorporated into the quorum and nor do they participate in the voting, the Company shall have the right to cancel such agreements, transactions or arrangements, except where the counterparty is an innocent party who is not aware of the relevant directors, supervisors and senior management' violation of their obligations.

The Company's directors, supervisors and senior management shall be treated as interested parties where their related persons are interested in a certain contract, transaction or arrangement.

If, before the Company first considers the entering into of the relevant contract, transaction or arrangement, a director, supervisor or senior management member of the Company gives written notice to the Board, stating that by reasons of the facts contained in the notice, he/she will be interested in such contract, transaction or arrangement to be entered into by the Company subsequently, such director, supervisor or senior management member shall be deemed to have made such disclosure as stipulated above to the extent as stated in the notice.

(vi) Appointment, removal and retirement

- *Election of Directors*

The Directors includes executive Directors and non-executive Directors (including independent non-executive Directors), and shall have a term of office of three years. All the directors may serve consecutive terms if re-elected upon the expiration of his/her term of office, unless otherwise provided by the relevant laws, regulations and the listing rules of stock exchange where the shares of the Company are listed.. The directors shall be elected by the shareholders' general meeting.

- *Election of Supervisors*

Supervisors of the Company include supervisors representing shareholders and supervisors representing employees. Supervisory Committee is composed of three supervisors representing shareholders and two supervisors representing employees.

Supervisors representing shareholders shall be elected, removed or changed by the shareholders' general meeting. Employee Supervisors shall be subject to the election, removal or change at the employee representative meeting or through any other democratic procedure.

- *Removal and resignation of Directors*

Prior to the expiration of the term of office of the directors, the general meeting of shareholders shall not remove their duties without cause. Subject to compliance with relevant laws, administrative regulations and the Listing Rules, the shareholders' general meeting may dismiss any director during his/her service term through an ordinary resolution. The removal of a director shall not affect the director's right to claim compensation under any contract. If a director fails to attend the board meeting in person for two consecutive times or entrust other directors to attend the board meeting, he/she shall be deemed unable to perform his/her duties, and the Board may recommend the shareholders' meeting to replace such director.

A director may resign prior to the expiry of his/her service term. When a director intends to resign, he/she shall submit a written resignation to the Board.

If the resignation of any director within his/her term of office causes the number of members of the Board to fall below the minimum number of directors required by laws, such director shall continue to perform his/her duties as a director in accordance with laws, administrative regulations, departmental rules and the Company's Articles of Association until a new director is elected and assumes his/her office. Save as stated above, the resignation of a director shall become effective when it is served to the Board.

There is no provision in the Articles of Association regarding retirement or non-retirement of directors under an age limit.

- *Removal and Resignation of Supervisors*

A supervisor may offer to resign before the expiry of his/her term of office. The provisions concerning the resignation of directors shall apply to supervisors.

(vii) Borrowing powers

The Articles of Association of the Company do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

— provisions which authorise the Board to formulate proposals for the issuance of corporate bonds or other marketable securities by the Company and public listing; and

— provisions which provide that the issuance of corporate bonds and other marketable securities shall be approved by the shareholders' general meeting by a special resolution.

(viii) ***Proceedings of the Board***

Resolutions of board meetings shall be passed by more than half of all directors.

A special resolution of board meetings shall be passed by two-thirds of all directors. For the following matters, a special resolution shall be passed by the Board:

— our plans for the increase or decrease of registered capital, issuance of corporate bonds or other marketable securities and listing plan;

— our plans for material purchase, repurchase of the Shares of the Company, merger, division, dissolution or change of corporate forms;

— our plans for repurchase of the shares of the Company because shares are used for employee stock ownership plan or stock ownership incentive scheme, shares are used to convert corporate bonds issued by a listed company that can be converted into stocks, it is necessary for a listed company to maintain its corporate value and stockholders' equity;

— amendments to the Articles of Association.

(C) REVISION OF THE COMPANY'S ARTICLES OF ASSOCIATION

In any of the following circumstances, our Company shall amend the Articles of Association:

— the Company Law or relevant laws or administrative regulations have been amended and the Articles of Association are in conflict with such amended laws or administrative regulations;

— important terms specified in our Articles of Association changes; and

— a resolution is passed by the shareholders' general meeting to amend our Articles of Association.

For any amendments to our Articles of Association, the Board shall propose the plan on amendments, which are subject to approval by the shareholders' general meeting. The amendments to the Articles of Association passed by the shareholders' meeting shall be subject to the approval by the relevant regulatory authorities, if required; and where an amendment to the Articles of Association shall be subject to registration, the Company shall register such amendment in accordance with relevant laws.

(D) VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

If the Company intends to change or abrogate the rights of a class of shareholders, it may do so only after such change or abrogation has been approved by way of a special resolution of the shareholders' general meeting and by a separate shareholders' meeting convened by the affected shareholders of that class in accordance with the Articles of Association, provided that the unlisted shares listed and traded on overseas stock exchanges as stipulated in the Articles of Association.

In the following conditions, rights of a class of shareholders shall be deemed to have been changed or abrogated:

— an increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

— a change of all or part of the shares of such class into shares of another class, a conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;

— a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;

— a reduction or removal of a dividend preference or property distribution preference during liquidation of the Company, attached to shares of such class;

— an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;

— a removal or reduction of rights to receive amounts payable by the Company in a particular currency attached to shares of such class;

— a creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

— an imposition of restrictions or additional restrictions on the transfer of ownership of shares of such class;

— an issuance of rights to subscribe for, or convert into, shares of such type or other classes;

— an increase in the rights and privileges of shares of other classes;

— restructuring of the Company causing shareholders of different classes to bear liability to different extents during the restructuring; and

— amendment or cancellation of provisions as required by "Special procedures for voting by class Shareholders" of our Articles of Association.

Interested shareholders shall not enjoy voting rights in class shareholders' general meeting. "Interested shareholders" shall have the following meanings:

— after the Company has made a repurchase offer to all shareholders equally pro rata or made a repurchase by means of public transaction at the stock exchange in accordance with the Articles of Association, "interested shareholders" refers to the controlling shareholders defined in the Articles of Association;

— after the Company has made a repurchase by means of agreement outside the stock exchange in accordance with the Articles of Association, "interested shareholders" refers to the shareholders concerned with this agreement; and

— in the Company's restructuring plan, "interested shareholders" refers to those shareholders who assume responsibilities with smaller proportion than other shareholders of the same class or those shareholders who enjoy different interests from other shareholders of the same class.

A resolution of class shareholders' meeting shall be passed after it is adopted by two-thirds or more of voting shares present at a class shareholders' meeting.

Special procedures for voting by shareholders of different classes do not apply to the following cases:

— after approval by the shareholders' general meeting through a special resolution, the Company issues domestic shares and overseas-listed foreign shares every other 12 months, either separately or simultaneously, and the domestic shares and overseas-listed foreign shares to be issued do not exceed 20% of this kind of shares already issued to the public;

— the plan to issue domestic shares and overseas-listed foreign shares during the Company's establishment is accomplished within 15 months from the date of approval of the securities regulatory authorities of the State Council;

— the unlisted shares of domestic shares and foreign shares held by the shareholders, after approval from the securities regulatory authorities of the State Council can be converted into overseas listed foreign shares and listed and traded on an overseas stock exchange.

(E) ALTERATION OF CAPITAL

- **Increase of registered capital**

Upon the demands of operation and business development and in accordance with relevant laws and administrative regulations and the securities regulatory rules where the Company's shares are listed, the Company may, subject to resolutions of the shareholders' meeting and the approval of the relevant regulatory authorities, increase its registered capital in the following ways:

— offering of new shares to non-specific investors;

— placing new shares to existing shareholders;

— dispatching new shares to existing shareholders;

— transferring capital reserve funds to increased capital; and

— other methods permitted by laws and administrative regulations or by relevant competent authorities.

The Company's increase of its capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws and administrative regulations after being approved according to the Articles of Association and the securities regulatory rules where the Company's shares will be listed.

- **Reduction of registered capital**

The Company may reduce its registered capital. The reduction of the registered capital of the Company shall be handled in accordance with the procedures stipulated by the Company Law and other relevant regulations and provisions of the Company's Articles of Association.

The Company must prepare a balance sheet and a list of properties when it is to reduce its registered capital.

The Company shall notify its creditors within 10 days of adopting the resolution to reduce its registered capital and shall publish an announcement of the resolution in the newspaper recognised by the stock exchange where the Company' shares will be listed within 30 days. Creditors shall, within 30 days of receiving a written notice or within 45 days since the date of the announcement for those who have not received a written notice, be entitled to require the Company to pay its debts or to provide a corresponding guarantee for repayment.

The registered capital of the Company after reduction may not be less than the statutory minimum.

(F) SPECIAL RESOLUTION — MAJORITY REQUIRED

The resolutions of the shareholders' general meeting are divided into two types: ordinary resolutions and special resolutions.

Ordinary resolutions made by shareholders' general meeting shall be adopted by more than half of the voting shares represented by the shareholders present at the meeting (including their proxies).

Special resolutions made by shareholders' general meeting shall be adopted by two-thirds or more of the voting shares represented by the shareholders present at the meeting (including their proxies).

The following items shall be adopted by shareholders' general meeting through ordinary resolution:

— work reports of the Board and the Supervisory Committee;

— profit distribution plans and loss recovery plans formulated by the Board;

— appointment and dismissal of directors and supervisors representing shareholders and their remuneration and payment thereof;

— plans for financial budget and final accountings, balance sheet, profit statements and other financial statements; and

— other matters except for those stipulated by laws, administrative regulations, departmental rules, relevant regulatory authorities, the listing rules of the stock exchange where the Company's shares are listed or the Articles of Association, which require the adoption through a special resolution.

The following items shall be adopted by shareholders' general meeting through special resolution:

— increase or reduction of the Company's registered capital and issuance of shares of any class, stock warrants of any type or any other similar securities;

— issuance of corporate bonds or other marketable securities and listing plan by the Company;

— such matters as division, merger, dissolution, liquidation and change of corporate form of the Company;

— amendments to of the Articles of Association;

— purchase or sale by the Company of material assets or the granting of guarantee(s) with a value exceeding 30% of the latest audited total asset value of the Company within one year;

— stock incentive plans and employee stock ownership plan; and

— other matters stipulated by laws, administrative regulations, departmental rules, regulatory authorities, the listing rules of the stock exchange where the Company's shares are listed or the Articles of Association, and determined by the shareholders' general meeting by a ordinary resolution that may be significant to the Company and shall be approved by special resolution.

(G) VOTING RIGHTS (GENERALLY, ON A POLL AND RIGHT TO DEMAND A POLL)

If the Company intends to hold a shareholders' general meeting, distribute dividends, conduct liquidation and other activities where the shareholders' identities need to be confirmed, the Board or the person convening the general meeting shall decide the record date, and the shareholders recorded in the register of members after the market closes on the record date shall be the shareholders who are entitled to relevant rights and interests.

Shareholders (including their proxies) shall exercise their voting rights according to the voting shares held by them, with each share representing one voting right.

Shares held by the Company have no voting rights, and will not be counted toward the total voting shares present in the shareholders' general meeting.

Unless the following person requires to vote by poll before or after a show of hands, the general meeting shall be voted by a show of hands: (1) the chairman of the meeting; (2) at least two voting shareholders or proxies of voting shareholders; (3) single or combined calculation of one or several shareholders (including their proxies) holding more than 10% (including 10%) of the voting shares held at the meeting. The demand for a poll may be withdrawn by the proposer.

Ballot voting requested for matters concerning the election of chairman of the meeting or termination of the meeting shall be conducted immediately; for other matters, the chairman of the meeting shall decide when to conduct ballot voting. The meeting can continue to discuss other matters, and the voting result there from will still be deemed as the resolution adopted in this meeting.

During ballot voting and subject to the applicable laws and regulations, shareholders (including their proxies) with two or more voting rights do not necessarily use them all for affirmative or negative votes.

(H) ANNUAL GENERAL MEETINGS

There are two types of shareholders' general meeting: annual shareholders' general meeting and extraordinary shareholders' general meeting. The shareholders' general meeting is generally convened by the board.

The annual shareholders' general meeting shall be held once a year and within six months after the end of the previous fiscal year.

An extraordinary shareholders' general meeting shall be convened within two months from the occurrence date of any of the following events:

— the number of directors is less than the quorum as specified by the Company Law, or two-thirds of the number as stipulated by the Articles of Association;

— the outstanding balance of the Company's loss reaches one-third of the Company's total share capital;

— shareholders who individually or jointly hold more than 10% (including 10%) of the voting shares in the Company submit a written request. The number of shares held shall be decided as of the date when the written request is submitted;

— the Board deems it as necessary or the Supervisory Committee proposes its opening; and

— other situations, as stipulated by laws, administrative regulations, departmental rules, regulatory authorities and the Articles of Association.

(I) ACCOUNTS AND AUDIT

The Company shall establish its financial and accounting systems according to provisions as stipulated by laws, administrative regulations and regulatory authorities.

The Board shall at each annual shareholders' general meeting submit to the Shareholders the financial statements prepared by the Company as required by the relevant laws, administrative regulations and regulatory documents promulgated by local government or regulatory authorities.

The Company shall prepare its financial statement not only according to the PRC accounting standards and regulations but also according to the international accounting standards or the accounting standards in the overseas-listing place. In case there are major differences between the financial statements prepared according to the two accounting standards, they should be indicated clearly in the notes of the financial statements. When distributing the after-tax profit for the related accounting year, the Company shall adopt whichever is the lower of the after-tax profit in the aforesaid two financial statements.

The Company shall publish its financial report twice in each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of a fiscal year, and publish the annual financial report within 120 days after the end of a fiscal year.

(J) NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED

Shareholders shall be notified no less than 20 days in advance of a general meeting of the time and place of the meeting and the matters to be considered at the meeting. Shareholders shall be notified no less than 15 days in advance of an extraordinary general meeting. For the issuance of bearer shares, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Any shareholder who holds or shareholders who together hold 3% or more of the shares of the Company may put forward an interim proposal and submit to the board of directors for the proposal in writing ten days in advance of a general meeting. The board of directors shall notify other shareholders of the interim proposal within two days as of the receipt thereof and submit the proposal to the general meeting for consideration. Any interim proposal put forward shall fall within the functions and powers of the shareholders' general meeting and shall have clear discussion points and matters to be decided.

The meeting notice for the Shareholders' general meeting shall satisfy the following conditions:

— made in writing;

— specifying the date, location, and duration of the meeting;

— describing the matters and proposals to be considered at the meeting;

— specifying date of record for the shareholders who are entitled to attend the shareholders' general meeting;

— providing the materials and explanations necessary for shareholders to make sensible decisions regarding the matters to be discussed, principally including (but not limited to) specific terms and agreements (if any) for a proposed transaction, and a detailed explanation of its reason and consequence where the Company proposes a merger, repurchase of shares, restructuring of shares or other form of restructuring;

— where any directors, supervisors and senior management have material interests with regard to matters to be discussed, then the nature and extent of that interests shall be disclosed. Further, where the impact of the matters to be discussed by such directors, supervisors and senior management who are shareholders is different from the impact on other shareholders of the same class, then that difference shall be illustrated;

— containing the full text of any special resolution proposed to be passed at the meeting;

— providing a clear description stating that shareholders who are entitled to attend the shareholders' general meeting and to vote on a resolution have the right to entrust at least one proxy, as necessary, who does not need to be a shareholder of the Company, to attend and vote at the meeting;

— setting the time and place for the delivery of the proxy letter of the meeting;

— specifying the name and telephone number of the contact person for the meeting; and

— other circumstances provided by laws, administrative regulations, departmental rules, statutory documents, relevant regulatory authorities and our Articles of Association.

The notice of shareholders' general meeting shall be delivered together with samples of authorised proxy letter.

(K) TRANSFER OF SHARES

Unless otherwise specified by the relevant laws, administrative regulations and the regulations of the securities regulatory authorities in the locality where the shares of the Company are listed, the fully paid shares of the Company may be transferred legally without any lien attached. To transfer the shares of the Company, the transferor shall register with the stock registration organisation entrusted by the Company.

All transfers of overseas-listed shares in Hong Kong shall adopt written instruments of transfer in writing in an ordinary or usual form or in any other form acceptable to the Board (including standard transfer format or form of transfer specified by Hong Kong Stock Exchange from time to time). The instruments of transfer must be signed by hand or (where the transferor or transferee is a corporation) by the company's seal. Where the transferor or transferee is a recognised clearing house (as defined by relevant regulations in accordance with Hong Kong laws from time to time) (hereinafter "**Recognised Clearing House**") or its proxy, the instruments of transfer may be signed by hand or in a machine-imprinted format.

The Company shall not accept any pledge with its own shares as the subject matters.

(L) POWER OF THE COMPANY TO REPURCHASE ITS OWN SHARES

The Company may repurchase its issued shares in the following circumstances in accordance with the provisions of the Article of Associations and subject to the approval from the relevant regulatory authorities:

(1) cancelling its shares for the purpose of reducing the registered capital of the Company;

(2) merging with any other companies holding the shares of the Company;

(3) using the shares for employee stock ownership plan or stock ownership incentive scheme;

(4) being requested to repurchase the shares of the Company by the shareholders who object to the resolutions adopted at the shareholders' general meeting concerning merger and division of the Company;

(5) using the shares to convert corporate bonds issued by a listed company that can be converted into stocks;

(6) where it is necessary for a listed company to maintain its corporate value and stockholders' equity; and

(7) other circumstances permitted by laws and administrative regulations.

Where the Company repurchases its shares under circumstances (1) or (2), it shall obtain approval from shareholders' general meeting. Where the Company repurchases its shares under circumstance (3), (5) or (6), it shall obtain approval from the board meeting with more than two-thirds of directors present, according to the provisions of the Articles of Associations or upon authorisation by the shareholders' general meeting.

Where the Company repurchases its shares under circumstance (1), the Company shall cancel the relevant shares within 10 days of the purchase, or in the event of a purchase made pursuant to circumstances (2) or (4), transfer or cancel the relevant shares within 6 months of the purchase, or in the event of a purchase made pursuant to circumstances (3), (5) or (6), hold a total number of its own shares not more than 10% of the total shares issued by the Company and transfer or cancel the relevant shares within three years of the purchase.

Any purchase of its own shares by the Company under circumstances (3), (5) or (6) shall be made by way of a public centralised trading.

The Company may repurchase its shares in any of the following ways after being approved by relevant regulatory authorities:

— making a repurchase general offer pro rata to all shareholders;

— repurchasing by means of public dealing on a stock exchange;

— repurchasing by means of contractual agreement outside a stock exchange; or

— other methods as permitted by national laws, administrative regulations and relevant regulatory authorities.

Where the Company cancels part of its shares due to the acquisition of shares, it shall apply to the Administrative Department for Industry and Commerce for registration of the change of registered capital. The aggregate par value of the cancelled shares shall be reduced from the registered capital of the Company.

(M) RIGHT OF ANY OF THE SUBSIDIARY COMPANIES TO OWN OUR SHARES

There are no provisions in the Articles of Association restricting ownership of shares in our Company by any of our subsidiary companies.

(N) DIVIDENDS AND OTHER METHODS OF DISTRIBUTIONS

The Company may distribute dividends in the form of cash and shares.

The Company shall draw 10% of its profits as the Company's statutory common reserve after distributing its after-tax profits for the current financial year. In the event that the accumulated statutory reserve exceeds 50% of the Company's registered capital, no further allocation is needed. Where the aggregate balance of the Company's statutory common reserve is insufficient to cover any loss the Company made in the previous financial year, the current financial year's profits shall first be used to cover the loss before any statutory common reserve is drawn therefrom in accordance with the provisions of the preceding paragraph. The shareholders' general meeting shall decide whether any further allocation to the discretionary reserve shall be made after making allocations to the statutory reserve. After the Company has made up the losses and made allocations to its common reserve, the remaining profits shall be distributed in proportion to the shareholding percentage held by the shareholders, unless otherwise specified by the Articles of Association. The Company shall not distribute dividends to shareholders before making up losses, making allocations to the statutory reserve. Any dividend distributed to shareholders by the shareholders' general meeting in contravention of the requirements provided above shall be refunded to the Company by the shareholders.

Shares of the Company held itself shall not participate in any distribution of profits.

The Company shall appoint receiving agents on behalf of the shareholders of overseas-listed foreign shares. The receiving agents shall be a trust company as registered under the *Trustee Ordinance* of Hong Kong. The receiving agents shall receive on behalf of the relevant shareholders dividends distributed and other monies payable by the Company in respect of the overseas-listed foreign shares, and the receiving agents shall keep these payments on behalf of the relevant shareholders, pending for payment to the relevant shareholders. The receiving agents appointed by the Company shall comply with the laws and the requirements of the regulations of the securities regulatory authorities where the shares of the Company are listed. The receiving agents appointed by the Company on behalf of H shareholders shall be a trust company registered in accordance with the Trustee Ordinance of Hong Kong.

(O) PROXIES

Any shareholders entitled to attend and vote at a shareholders' meeting shall have the right to appoint one or more persons (who need not be shareholders) as his/her proxies to attend and vote on his/her behalf. The shareholder's proxy may exercise the following rights in accordance with the entrustment of the shareholder:

— speak at the shareholders' meeting;

— request to vote by voting either by himself or jointly with others; and

— Except as otherwise provided in the applicable securities listing rules or other securities laws and regulations, voting rights shall be exercised by raising hands or by voting, but when more than one shareholder proxy is appointed, shareholder proxies may only exercise voting rights by voting.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorised by the shareholders in writing. If a shareholder is a legal person, the instrument shall be sealed with the legal person's stamp or signed by its directors or agents authorised in writing.

The power of attorney shall state:

— the name of the proxy;

— whether it has the right to vote or not;

— instructions for voting in favor, against or abstaining from each item on the agenda of the shareholders' general meeting;

— date of issuance and validity of power of attorney; and

— the amount of shares represented by the shareholder's proxy. If more than one person is entrusted as shareholder's proxy, the power of attorney shall indicate the number of shares represented by each shareholder's proxy.

The proxy form shall specify, in the absence of specific instructions from the shareholder, the proxy may vote at his/her own discretion.

Where a shareholder has died, lost capacity for acts, revoked the proxy or the signed authorisation prior to the voting, or the relevant shares have been transferred, a vote given in accordance with the terms of proxy letter shall remain valid as long as our Company does not receive a written notice of the event before the commencement of the relevant meeting.

(P) CALLS ON SHARES AND FORFEITURE OF SHARES

The Company shall have the right to terminate sending dividend warrants to holders of overseas-listed shares by mail, but the Company shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however, the Company can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

The Company shall have the right to sell the shares of shareholders of overseas-listed foreign shares who are untraceable in a way deemed appropriate by the Board, provided the following conditions are met:

— the Company has distributed dividends at least 3 times to the shares within 12 years, and the dividends are not claimed by anyone during the period; and

— the Company publishes announcements in one or more newspapers where the Company's shares are listed after the expiration of the 12-year period, stating its intention to sell the shares, and informs the stock exchange where the Company's shares are listed.

(Q) INSPECTION OF REGISTER OF MEMBERS

Our shareholders are entitled to inspect all parts of the register of members and make photocopies upon payment of a reasonable cost according to the Articles of Association of the Company.

(R) RIGHTS OF MINORITIES IN RELATION TO FRAUD OR OPPRESSION

A controlling shareholder and the actual controller of the Company have a duty of fidelity to the Company and other public shareholders. The controlling shareholder shall exercise the rights of contributors in strict compliance with the laws, and it shall not jeopardize legitimate rights and interests of the Company and other public shareholders by profit distribution, assets reorganization, external investments, capital occupation or loan guarantee or by taking advantage of its controlling position.

In addition to the obligations imposed by the laws and administrative regulations or the relevant regulations required by securities regulatory authorities where the shares of the Company are listed, our controlling shareholder, in exercising the power as a shareholder, shall not exercise his voting rights in a manner prejudicial to the interests of all or part of the shareholders when making decision on the following matters:

— exempting the responsibility of the directors and the supervisors to act in good faith for the maximum benefit of the Company;

— approving the directors and the supervisors to deprive the property of the Company (including but not limited to the opportunities that are favorable to the Company) in any form for their own benefit or for the benefit of others; and

— approving the directors and the supervisors to deprive the individual rights and interests of other shareholders (including but not limited to any distribution rights, voting rights, but excluding the reorganization of the Company which is submitted to the shareholders' general meeting for approval in accordance with the Articles of Association) for their own benefit or for the benefit of others.

The term "controlling shareholder(s)" herein shall refer to the person(s) satisfying any of the following conditions:

— acting alone or in concert with others, has the right to elect half or more of the directors;

— acting alone or in concert with others, has the right to exercise or control the exercise of 30% or more of the voting rights of the Company;

— acting alone or in concert with others, holds 30% or more of the issued shares of the Company;

— acting alone or in concert with others, can de facto control the Company in any other manners.

The term "acting in concert with others" refers to the act whereby two or more persons reach an agreement, either orally or in writing, through which any one of them obtains the right to vote on the Company in order to achieve or consolidate the purpose of controlling the Company.

(S) PROCEDURE ON LIQUIDATION

The Company shall be dissolved according to laws, if:

— the term of its business operations has expired;

— its shareholders' meeting has resolved to do so;

— it is dissolved as a result of the merger or division of the Company;

— it is declared to be bankrupted as a result of the inability to pay off the due debts;

— the Company's business license is revoked, or it is ordered to be terminated or revoked according to laws; or

— in case the Company encounters significant difficulties in its operation and management, under the circumstance of which continuing existence will cause material harm to shareholders' interests, and the problems could not be solved by other means, the shareholders holding 10% or more of all the voting shares may request the People's Court to dissolve the Company;

— other situations according to laws and regulations.

If the Board decides the Company shall carry out liquidation (except for liquidation resulting from the Company's declaration of bankruptcy), it shall state in the notice of the shareholders' general meeting convened for this purpose that the Board has conducted comprehensive investigation of the Company's condition and believes that the Company is able to pay off all its debts within 12 months after starting the liquidation.

The powers and functions of the Board shall terminate immediately upon the resolution on liquidation passed by shareholders' general meeting.

The liquidation committee shall follow the directions of the shareholders' general meeting to report on its income and expenditures, the Company's business and progress of liquidation at least once a year to the shareholders' general meeting and make a final report to shareholders' general meeting at the end of liquidation.

The liquidation committee shall give notice of its establishment to the creditors within 10 days of its establishment and publish at least three announcements of the establishment in the media designated by the Company within 60 days of its establishment. The liquidation committee shall register creditors' claims.

(T) OTHER PROVISIONS MATERIAL TO OUR SHAREHOLDERS

- **Functions and Authority of the Shareholders' Meeting**

The shareholders' meeting is the authorised entity to exercise the functions and authorities as follows in accordance with the law:

— decision on business policies and investment plans;

— election and replacement of supervisors who are not employee representatives and decision on their remuneration;

— review and approval of reports of the Board;

— review and approval of reports of the Supervisory Committee;

— review and approval of proposed annual financial budgets and final accounts;

— review and approval of profit distribution and loss recovery plan;

— resolutions on increase or reduction of registered capital;

— resolutions on merger, division, dissolution, liquidation or change of the legal form of the Company;

— resolutions on issuance of corporate bonds or other marketable securities and listing;

— decision on engagement, dismissal or discontinuance of engagement of accounting firm;

— revision of our Articles of Association;

— consideration and review of matters relating to the acquisition or disposal of material assets or provision of any guarantee(s) with a value exceeding 30% of the latest audited total asset value of the Company within one year;

— review and approval of stock incentive plan and employee stock ownership plan;

— review and approval of proposals by shareholders who represent 3% (inclusive) or more voting rights of the Company;

— review and approval of related party transactions and guarantees which shall be approved by the shareholders' general meeting in accordance with laws, administrative regulations, departmental rules, statutory documents, requirements by relevant regulatory authorities and the Articles of Association of the Company;

— review and approval of the change of use of proceeds; and

— review and approval of other matters which shall be determined by the shareholders' general meeting in accordance with laws, administrative regulations, the Articles of Association of the Company and the listing rules of the listing venue.

- **Board Committees**

The Board shall establish special committees, including Strategy Committee, Remuneration Committee, Nomination Committee, and Audit Committee. Each special committee shall be responsible to the Board. Audit Committee, Nomination Committee and Remuneration Committee shall be composed mainly by independent non-executive directors, and Audit Committee and Remuneration Committee shall be chaired by an independent non-executive director as person in charge. Nomination Committee shall be chaired by the chairman of the Board or an independent non-executive director.

Audit Committee shall be composed of at least three members and all of them shall be non-executive directors and shall include at least one independent non-executive director who is with appropriate professional qualifications or accounting or related financial management expertise in accordance with the relevant provisions of the Listing Rules. Audit committees shall be composed mainly by independent non-executive directors. The chairman of the audit committee must be an independent non-executive director.

- **Supervisory Committee**

The Company has established the Supervisory Committee. The Supervisory Committee shall exercise by laws the following functions and duties:

— to inspect and supervise the financial activities of the Company;

— to supervise the conduct of directors, general manager and other senior management in performing their duties to the Company and to recommend the removal of directors and senior management who violated laws, administrative regulations, Articles of Association of the Company or the resolutions of the shareholders' general meeting;

— to urge directors, general manager and other senior management to correct their acts which impair the benefits of the Company;

— to check the financial reports, operation reports, profit distribution plan and other financial information the Board intends to submit to the shareholders' general meeting, and if in doubt, may engage certified public accountant and independent auditor to recheck at the name of the Company;

— to propose the convening of extraordinary shareholders' general meetings, and, if the Board fails to convene and preside over such a meeting, to convene and preside over the shareholders' general meetings;

— to submit proposals to the shareholders' general meeting;

— to bring actions against directors and senior management according to the Company Law;

— to propose to convene a board meeting;

— to investigate when finding that the company is running abnormally, and (if necessary) may engage accounting firms, law firms or other professional firms to assist its work at the costs of the Company;

— other functions and powers as prescribed in the laws, administrative regulations, departmental rules, provisions of the relevant regulatory authorities, the Articles of Association and authorised by the shareholders' general meetings.

- **Dispute resolution**

The Company shall comply with the following rules of dispute resolution:

Whenever any disputes or claims relating to the affairs of the Company arise from the rights and obligations provided for in the Articles of Association of the Company, the Company Law and other relevant laws and administrative regulations, between the Company and its directors and senior managers, between the shareholders of overseas-listed foreign shares and the Company, between the shareholders of overseas-listed foreign shares and the directors, supervisors and senior managers of the Company, between the shareholders of overseas-listed foreign shares and other shareholders, the parties involved shall refer such disputes or claims to arbitration.

The disputes or claims mentioned above which are referred to arbitration shall be the entire dispute and claim; all persons having a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of the disputes or claims, if they are, shareholders of the Company, directors, supervisors, or senior managers of the Company, shall abide by such arbitration.

Disputes over the definition of a shareholder and over the register of shareholders need not be resolved through arbitration.

The party seeking arbitration may elect to have the dispute or claim arbitrated either by the China International Economic and Trade Arbitration Commission according to its arbitration rules or by the Hong Kong International Arbitration Centre according to its securities arbitration rules. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party shall submit to the arbitral body selected by the party seeking arbitration.

If the party seeking arbitration elects to arbitrate at the Hong Kong International Arbitration Centre, either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

The laws of the PRC shall govern the arbitration of disputes or claims described in above unless otherwise provided by the laws, administrative regulations, departmental regulations and regulatory documents.

The ruling of the arbitral body shall be final and binding on the parties thereto.

In the above-mentioned arbitration involving directors, supervisors, general managers or other senior managers, the arbitration agreements are reached between the directors, supervisors, general managers or other senior managers and the Company, which represents both itself and each shareholder.

Any submission of arbitration shall be deemed to authorise the arbitral tribunal to conduct a public hearing and publish its award.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Predecessor Company was established in Taizhou, the PRC as a limited liability company under the PRC Company Law on 5 May 1993. On 30 June 1999, our Predecessor Company was converted into a joint stock limited liability company and renamed as Zhejiang Taizhou Water Supply Co., Ltd., namely our Company. Our Company has established a place of business in Hong Kong at 14/F., Golden Centre, 188 Des Voeux Road Central, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 12 June 2019. Our Company has appointed Ms. Siu Pui Wah of 14/F., Golden Centre, 188 Des Voeux Road Central, Hong Kong as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Associations is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix IV of this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company on 30 June 1999, our registered share capital was RMB149,130,000 divided into 149,130,000 Shares with a nominal value of RMB1.00 per Share.

On 12 March 2017, the registered capital of our Company was increased from RMB149,130,000 to RMB217,729,800. The additional capital of RMB68,599,800 was contributed by the undistributed profit of the Company. The change in registered capital was registered with the Administration for Market Regulation of Taizhou on 16 March 2017.

On 3 July 2017, the registered capital of our Company was reduced from RMB217,729,800 to RMB150,000,000 as a result of the Demerger. The change in registered capital was registered with the Administration for Market Regulation of Taizhou on 25 August 2017. For further details, please refer to "History and corporate structure — Our corporate development — Demerger and subsequent change in registered capital in 2017" in this prospectus.

Immediately following completion of the Global Offering, but without taking into account any H Shares which may be issued by our Company pursuant to the Over-allotment Option, our registered share capital will increase to RMB200,000,000, made up of 150,000,000 Domestic Shares and 50,000,000 H Shares fully paid up or credited as fully paid up, representing 75% and 25% of the registered share capital, respectively. Save as aforesaid, there has been no alteration in our registered share capital since our establishment.

Save as disclosed in "History and corporate structure" in this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

3. Resolutions passed at our Company's Extraordinary General Meetings on 5 June 2019 and 8 November 2019

At the extraordinary general meetings of our Company held on 5 June 2019 and 8 November 2019, among other things, the following resolutions were passed by our Shareholders:

(a) subject to the completion of the Global Offering, the Articles of Association has been approved, adopted and amended, which shall become effective on the Listing Date;

(b) approving the issue of H Shares with a par value of RMB1.00 each. The number of the H Shares so issued shall not exceed 50,000,000 H Shares (about 25% of the total issued share capital of our Company after the Global Offering) and granting of the Over-allotment Option shall be no more than 15% of the number of H Shares issued as above mentioned; and

(c) authorising the Board to handle all matters relating to, among other things, the Global Offering, the issue of H Shares and the Listing of H Shares on the Stock Exchange.

4. Changes in share capital of subsidiaries

Save as disclosed in "History and corporate structure" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years preceding the date of this prospectus.

5. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in "History and corporate structure — Our subsidiaries" and "Accountants' Report" in Appendix I to this prospectus.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) a share transfer agreement dated 7 November 2018 entered into between our Company and Taizhou Development, pursuant to which our Company agreed to transfer its 100% equity interests in Taizhou Modern Construction to Taizhou Development at a consideration of RMB7,020,000;

(b) a share transfer agreement dated 7 November 2018 entered into between our Company and Taizhou Development, pursuant to which our Company agreed to transfer its 100% equity interests in Zhejiang Taizhou Landscape to Taizhou Development at a consideration of RMB12,670,000;

(c) the Deed of Indemnity;

(d) the Hong Kong Underwriting Agreement; and

(e) a cornerstone investment agreement dated 16 December 2019 entered into among our Company, Shanghai Yangtze River Delta Water Environment Investment Fund Limited and the Sole Global Coordinator, pursuant to which Shanghai Yangtze River Delta Water Environment Investment Fund Limited agreed to subscribe for the H Shares in the aggregate amount of HK$52,750,000 at the Offer Price.

2. Intellectual property rights of our Group

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademark:

No.	Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
1.		Our Company	Hong Kong	37, 39, 40 *(Note)*	304936528	23 May 2029

Note:

Details of the class of services in relation to the trademark of our Group are set out as follows:

(i) Class 37: installation, repair and maintenance of pipes, drainage, plumbing, piping and electrical equipment; rental of drainage pumps

(ii) Class 39: water supply and water distribution

(iii) Class 40: water treatment, sewage treatment and water purification

(b) Patents

As of the Latest Practicable Date, we have registered the following patent:

No.	Patent	Patentee	Place of Registration	Patent Number	Application Date	Expiry Date
1.	Feeding and mixing device for potassium permanganate in water plant (一種水廠高錳酸鉀的上料和混合裝置)	Taizhou City Water	China	ZL201621303258.X	30 November 2016	29 November 2026

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain name which is material to our business:

Registrant	Domain Name	Registration Date	Expiry Date
Our Company	zjtzwater.com	12 June 2016	12 June 2022

C. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUPERVISORS

1. Particulars of Directors' and Supervisors' contracts

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, (i) compliance of relevant laws or regulations; (ii) observance of the Articles of Association; and (iii) provisions on arbitration.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to enter into a service contract with any member of our Group other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

2. Directors' and Supervisors' remuneration

(a) Directors' remuneration

For the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the aggregate amount paid to our Directors as remuneration (including fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were RMB1,218,000, RMB1,294,000, RMB1,125,000 and RMB726,000, respectively. There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Save as disclosed in "Directors, Supervisors and senior management — Remuneration of the Directors, Supervisors and senior management" in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 by us to our Directors.

Based on the arrangements in force as of the Latest Practicable Date, for the year ending 31 December 2019, the estimated total remuneration payable to the Directors will be approximately RMB1,365,000.

(b) Supervisors' remuneration

For the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the aggregate amount paid to our Supervisors as remuneration (including fees, salaries, contribution to retirement benefit scheme and discretionary performance related bonus) were RMB729,000, RMB751,000, RMB927,000 and RMB424,000, respectively. There has been no arrangement under which a Supervisor has waived or agreed to waive any emoluments for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Save as disclosed in "Directors, Supervisors and senior management — Remuneration of the Directors, Supervisors and senior management" in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 by us to our Supervisors.

Based on the arrangements in force as of the Latest Practicable Date, for the year ending 31 December 2019, the estimated total remuneration payable to the Supervisors will be approximately RMB838,000.

D. DISCLOSURE OF INTERESTS

1. Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the interests and/or short positions of our Directors, Supervisors and chief executive in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) will have to be notified to 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 taken or deemed to have under such provisions of SFO), or (b) which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors), once the H Shares are listed, will be as follows:

Our Company

Director / Supervisor	Nature of interest	Number of Shares held after the Global Offering[(1)]	Approximate shareholding percentage in the relevant class of Shares after the Global Offering[(2)]	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering[(3)]
Mr. Yang Yide	Interest of controlled corporation[(4)]	10,058,338 (L)	6.705%	5.03%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares.

(2) The calculation is based on the total number of 150,000,000 Domestic Shares in issue immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

(3) The calculation is based on the total number of 150,000,000 Domestic Shares and the total number of 50,000,000 H Shares (i.e. a total of 200,000,000 Shares) in issue immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

(4) Qufeng Holdings will directly hold approximately 5.03% shareholding interest in our Company (without taking into account the exercise of the Over-allotment Option). The disclosed interest represents the interest in our Company held by Qufeng Holdings which is in turn 80% owned by Mr. Yang Yide. By virtue of the SFO, Mr. Yang Yide is deemed to have an interest in the Shares held by Qufeng Holdings.

2. Disclosure of Interests of Substantial Shareholders

Save as disclosed in "Substantial Shareholders" in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering have an interest or short position in the Shares or the underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

E. DISCLAIMERS

1. Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or Supervisors nor any of the persons whose names are listed in "F. Other information — 8. Consents of experts" in this Appendix has any direct or indirect interest in the promotion of, 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 any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of the Directors or Supervisors nor any of the persons whose names are listed in "F. Other information — 8. 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 the business of our Group;

(c) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

(d) none of the Directors or their associates (as defined in the Listing Rules) or existing Shareholders of our Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers of our Company; and

(e) none of the Directors or their associates (as defined in the Listing Rules) or our existing Shareholders of our Company (who, to the knowledge of the Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest suppliers of our Company.

F. OTHER INFORMATION

1. Indemnities

On 8 November 2019, Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction entered into the Deed of Indemnity with and in favour of our Company, pursuant to which Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction agreed and undertook with our Company, subject to the terms of the Deed of Indemnity, to indemnify and keep our Company indemnified on a joint and several basis against any and all tax liabilities falling on our Company which might be payable by us in respect of, among others, any incomes, profits or gains earned, accrued or received prior to the date on which the Global Offering becomes unconditional (the "**Effective Date**"), save in the following circumstances:

(a) to the extent that provision has been made for such taxation in any audited accounts of our Company for any period up to 30 June 2019; or

(b) for which our Company is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets (if any) after the Effective Date; or

(c) to the extent that such taxation or liability falling on our Company in respect of its accounting period commencing from 1 July 2019 unless liability for such taxation would not have arisen but for some act or omission of or transaction voluntarily effected by our Company (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction, other than any such act, omission or transaction:

    (i) carried out or effected in the ordinary course of business or as part of an acquisition and disposition of capital assets (if any) conducted in the ordinary course on or before the Effective Date; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date; or

(d) to the extent that such taxation arises or is incurred as a result of a retrospective change in laws or interpretation and practice by the SAT or other relevant authority or a retrospective of tax rates coming into force after the Effective Date; or

(e) to the extent that any provisions or reserve made for taxation in the audited accounts of our Company up to 30 June 2019 which is finally established to be an over-provision or an excessive reserve in which case Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (e) to reduce Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction's liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, Taizhou SCOG, Taizhou Financial Investment and Taizhou Urban Construction also agreed and undertook to indemnify and keep our Company indemnified against any costs, expenses, claims, liabilities, penalties, fines, losses and damages that our Company may suffer due to: (i) the non-compliance with the relevant PRC laws; and (ii) any litigation, arbitration, claim and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature instituted or threatened against our Company accrued or arising on or before the Listing Date.

2. Estate duty

Our Directors have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

3. Litigation

As of the Latest Practicable Date, neither our Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of the Group.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be HK$23,500 and are payable by our Company.

5. Sole Sponsor

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules. Our Company has entered into engagement agreements with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of aggregate fees of HK$4.3 million to act as a sole sponsor to our Company in the Global Offering.

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

6. Promoter

The promoters of our Company are Taizhou Urban Construction, Zhejiang Huangyan Financial Development, Taizhou Jiaojiang Infrastructure, Zhejiang Taixin, Zhejiang Zhijiang, Taizhou Luqiao Financial Development and Taizhou Hydropower.

Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

7. 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
Sinolink Securities (Hong Kong) Company Limited	Licensed under the SFO to conduct type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	Legal advisers to our Company as to PRC law
Frost & Sullivan	Industry consultant

8. Consents of experts

Each of the experts named in paragraph 7 above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or summary of valuations and/or opinion and/or data (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 in paragraph 7 above has any shareholding interest in the Group or any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group.

9. Compliance adviser

The Company has appointed Sinolink Securities (Hong Kong) Company Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance insofar as applicable.

11. Agency fees or commission received

The Underwriters will receive an underwriting commission, as referred to under "Underwriting — Underwriting arrangements and expenses — International Offering — Commission and expenses" in this prospectus.

12. Restrictions on share repurchase

Please see "Summary of principal PRC and Hong Kong legal and regulatory provisions — PRC laws and regulations — (c) The PRC Company Law, Special Regulations and Mandatory Provisions — Repurchase of shares" in Appendix IV to this prospectus for details.

13. Miscellaneous

(a) Save as disclosed herein, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(iv) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;

(v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries; and

(vi) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.

(b) Since 30 June 2019, being the date of our latest audited consolidated financial results as set out in "Accountants' Report" in Appendix I to this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.

(c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

(d) None of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

(e) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

(f) The Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures.

(g) All necessary arrangements have been made by the Company to enable the H shares to be admitted into CCASS for clearing and settlement.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the Application Forms;

(b) copies of each of the material contracts referred to in "Statutory and general information — B. Further information about the business of our Company — 1. Summary of material contracts" in Appendix VI to this prospectus; and

(c) the written consents referred to in "Statutory and general information — F. Other information — 8. Consents of experts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Jingtian & Gongcheng LLP at Suites 3205-3207, 32/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountants' report from Ernst & Young, the text of which is set out in "Accountants' Report" in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Group for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019;

(d) the report from Ernst & Young relating to the unaudited pro forma financial information of our Group, the text of which is set out in "Unaudited pro forma financial information" in Appendix II to this prospectus;

(e) the legal opinions prepared by Jingtian & Gongcheng, our legal adviser on PRC law, in respect of the general matters and property interests of our Group;

(f) the material contracts referred to in "Statutory and general information — B. Further information about the business of our Company — 1. Summary of material contracts" in Appendix VI to this prospectus;

(g) the written consents referred to in "Statutory and general information — F. Other Information — 8. Consents of experts" in Appendix VI to this prospectus;

(h) the service contracts and appointment letters referred to in "Statutory and general information — C. Further information about the Directors and Supervisors — 1. Particulars of Directors' and Supervisors' contracts" in Appendix VI to this prospectus;

(i) the report issued by Frost & Sullivan, the summary of which is set forth in "Industry overview" in this prospectus; and

(j) the PRC Company Law, the Mandatory Provisions and Special Regulations together with their unofficial translation.

台州市水務集團股份有限公司

Taizhou Water Group Co., Ltd.*