瀘州市興瀘水務(集團)股份有限公司

LUZHOU XINGLU WATER (GROUP) CO., LTD.*

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

Stock Code: 2281

2016
Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Qi (張歧先生) *(Chairman of the Board)*
Mr. Liao Xingyue (廖星樾先生)
Mr. Wang Junhua (王君華先生)

Non-executive Directors

Mr. Chen Bing (陳兵先生)
Mr. Yang Ronggui (楊榮貴先生)
Ms. Xu Yan (徐燕女士)

Independent Non-executive Directors

Mr. Gu Ming'an (辜明安先生)
Mr. Lin Bing (林兵先生)
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)

STRATEGY COMMITTEE

Mr. Chen Bing (陳兵先生) *(Chairman)*
Mr. Zhang Qii (張歧先生)
Mr. Lin Bing (林兵先生)

AUDIT COMMITTEE

Mr. Cheng Hok Kai, Frederick (鄭學啟先生) *(Chairman)*
Mr. Gu Ming'an (辜明安先生)
Mr. Yang Ronggui (楊榮貴先生)

NOMINATION AND REMUNERATION COMMITTEE

Mr. Gu Ming'an (辜明安先生) *(Chairman)*
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)
Mr. Zhang Qi (張歧先生)

SECRETARY TO THE BOARD

Mr. Chen Yongzhong (陳永忠先生)

COMPANY SECRETARIES

Mr. Chen Yongzhong (陳永忠先生)
Ms. Ng Wing Shan (吳詠珊女士)

AUTHORISED REPRESENTATIVES

Mr. Zhang Qi (張歧先生)
Mr. Chen Yongzhong (陳永忠先生)

REGISTERED ADDRESS, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

16 Baizi Road
Jiangyang District, Luzhou
Sichuan Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

DOMESTIC SHARE REGISTRAR

China Securities Depository and Clearing Corporation Limited
No. 17, Taipingqiao Avenue
Xicheng District, Beijing

H SHARE REGISTRAR

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

CORPORATE INFORMATION (Continued)

LEGAL ADVISER

As to Hong Kong law:
Luk & Partners
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

As to PRC law:
Jia Yuan Law Offices (Beijing)
F408, Level 4, Ocean Plaza
158 Fuxing Men Nei Avenue
Xicheng District
Beijing, PRC

COMPLIANCE ADVISER

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Luzhou City Commercial Bank
Bank of Communications Co., Ltd.

INTERNATIONAL AUDITOR

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

STOCK CODE

2281

COMPANY WEBSITE

www.lzss.com

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"Annual General Meeting"	the annual general meeting to be held by the Company on 15 June 2017, or any adjournment thereof
"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors
"Chengdong Treatment Plant"	the wastewater treatment plant we completed the construction and were in the process of acceptance of inspection in Longmatan District of Luzhou urban area
"Chengnan Treatment Plant"	the wastewater treatment plant we completed the construction and were in the process of acceptance of inspection in Jiangyang District of Luzhou urban area
"Company", "the Company" or "Xinglu Water", "us" or "we"	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability established in the PRC, whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 2281)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
"Group" or "our Group"	the Company and its subsidiaries from time to time
"H Share(s)"	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange
"HKD", "HK$" or "Hong Kong dollars"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IFRSs"	International Financial Reporting Standards issued by the International Accounting Standards Board
"IPO"	the successful initial public offering of the Company's H Shares through the Stock Exchange on 31 March 2017
"Latest Practicable Date"	24 April 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report before printing
"Listing Date"	31 March 2017, being the date on which the H Shares were listed and from which dealings in the H Shares commenced on the Main Board of the Stock Exchange

DEFINITIONS (Continued)

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Nanjiao Supply Plant II"	the tap water supply plant that we are currently constructing in Jiangyang District of Luzhou urban area
"Naxi Treatment Plant"	the wastewater treatment plant we operate in Naxi District of Luzhou urban area
"PRC" or "China"	the People's Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus dated 21 March 2017 in relation to the IPO of H Shares
"Qiancao Supply Plant II"	the tap water supply plant that we are currently constructing in Jiangyang District of Luzhou urban area
"Reporting Period"	the period from 1 January 2016 to the twelve months ended 31 December 2016
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Shareholder with Undertaking"	Xinglu Investment, the Controlling Shareholder of the Company
"Xinglu Investment"	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), our Controlling Shareholder, a PRC limited liability company established on 28 January 2003 and owned as to 100% by Luzhou SASAC
"Luzhou Laojiao"	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), a PRC limited liability company established on 21 December 2000 and wholly owned by Luzhou SASAC
"Luzhou Infrastructure"	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), a PRC limited liability company established on 29 May 2001 and owned as to 79.13% by Xinglu Investment, 20.86% by CDB Development Fund Co., Ltd.* (國開發展基金有限公司) and 0.01% by Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司), a wholly-owned subsidiary of Xinglu Investment, respectively
"%"	per cent

* *For identification purposes only*

FINANCIAL HIGHLIGHTS

The Board is pleased to announce the following financial highlights:

CONSOLIDATED RESULTS

	Year ended 31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**836,191**	911,896	628,983	409,798
Profit before tax	**165,812**	170,352	136,719	105,833
Income tax expense	**(25,016)**	(25,934)	(21,187)	(17,880)
Profit for the year	**140,796**	144,418	115,532	87,953
Profit and total comprehensive income for the year attributable to:				
– Owners of the Company	**126,647**	130,412	100,386	73,894
– Non-controlling interests	**14,149**	14,006	15,146	14,059
	140,796	144,418	115,532	87,953
Return on average equity	**11.4%**	16.5%	20.4%	18.2%
Basic earnings per share *(RMB)*	**0.20**	0.22	0.25	0.19

FINANCIAL HIGHLIGHTS (Continued)

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**2,659,137**	2,059,228	1,433,324	1,033,326
Total liabilities	**(1,287,864)**	(963,971)	(777,339)	(558,403)
	1,371,273	1,095,257	655,985	474,923
Equity attributable to owners of the Company	**1,289,784**	1,031,381	606,808	431,035
Non-controlling interests	**81,489**	63,876	49,177	43,888
	1,371,273	1,095,257	655,985	474,923

Consolidated results of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the summary of consolidated assets and liabilities of the Group as at 31 December 2013, 2014 and 2015 are derived from the Prospectus.

Consolidated financial statements of the Group for the year ended 31 December 2012 were not published.

During the Reporting Period, the Group's audited profit attributable to owners of the Company amounted to approximately RMB126.6 million. Basic earnings per Share during the Reporting Period was approximately RMB0.20. The Board did not recommend the payment of the final dividend for the year ended 31 December 2016. The Company did not declare or pay any interim dividend or special dividend during the year ended 31 December 2016.

The Annual General Meeting will be held at 9:00 a.m. on Thursday, 15 June 2017 at the meeting room of 6th Floor, 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province.

CHAIRMAN'S STATEMENT

Among the majestic mountains lies the City of Liquor, blessed with limpid springs, and fine spirits of the universe; Meandering rivers nurture this City of Harbour, where all the sweet dreams come true together.

Zhang Qi
Chairman of the Board

CHAIRMAN'S STATEMENT (Continued)

Xinglu Water has been successfully listed on the Main Board of the Stock Exchange on 31 March 2017, and hereby ushers in its first annual report. On behalf of all the fellow employees of Xinglu Water, I would like to take this opportunity to extend my heartfelt gratitude to all the Shareholders, people from all walks of life and all the authorities for their all-out support.

The initial public offering of 214,940,000 Shares (including the reduction of 19,540,000 state-owned Shares) in Hong Kong international capital market and the net proceeds of about HK$395.1 million raised therefrom have brought new impetus to the development of the Company and also laid a solid foundation for the rapid development of the Company. Benefiting from the listing, Xinglu Water has enjoyed a significantly improved image worldwide and introduced premium international investors, which will propel the Company to improve corporate governance and optimize internal control in accordance with international standards and achieve sustainable development.

With the positioning of an "integrated municipal water service provider", the Company has been continuously expanding its market share in the water supply and drainage industry while exerting active efforts on the exploration of environmental protection services and the comprehensive development of urban environmental governance, so as to continuously expand its influence in the environmental protection industry in China.

During the Reporting Period, the Company, with the annual development strategy and operating plan in mind, further strengthened internal management, expanded the scope of water supply and drainage business and stepped up the efforts on the construction of water supply and wastewater treatment infrastructures, striving to enhance the capability of providing premium services and maintain continuous operating revenue growth. During the Reporting Period, the Company recorded a continuous growth in the revenue from principal businesses: revenue from the sales of tap water amounted to RMB179.4 million, representing an increase of 9.8% as compared to that of last year; revenue from the installation and maintenance service in respect of tap water supply segment amounted to RMB136.1 million, representing an increase of 3.3% as compared to that of last year; revenue from the wastewater treatment operating service amounted to RMB125.9 million, representing an increase of 15.5% as compared to that of last year. Profit after tax amounted to RMB140.8 million, representing a decrease of 2.5% as compared that of last year, which was mainly attributable to the share reform in preparation for listing and the increase in interest expenses.

In the new year of 2017, the Company will capture the opportunities for development, and leverage the power of the international capital market, adhere to the development strategy of "basing itself in Luzhou and seeking expansion nationwide to build itself into an integrated enterprise providing municipal water services and environmental protection services" and take water supply and drainage businesses as principal businesses and internal management, technical innovation and business expansion as development focuses, to enhance the Company's capabilities in water supply and wastewater treatment through the acquisition and merger of water supply and drainage enterprises, so as to strive to shape the core competitiveness of Xinglu Water and maximize its corporate value.

I believe that, with the all-out support of all the Shareholders, the management team of Xinglu Water will strive for greater achievements and spare no effort to generate rich investment returns for the Shareholders and actively make more contributions to the sustainable development of the society and the environment.

Zhang Qi
Chairman of the Board

Luzhou, China
24 April 2017

GENERAL MANAGER'S REPORT

The year 2016 was the beginning year of the 13th Five-Year Plan and a critical year for the Company to carry out share reform in preparation for the listing and seek development through transformation. With the support of all the Shareholders, the Company was successfully listed on the Stock Exchange on 31 March 2017. As the general manager of the Company, I am deeply honored to present to all the Shareholders the annual report of the Group for the year ended 31 December 2016.

During the Reporting Period, the Company, under the leadership of the Board, exerted active efforts in capturing policy opportunities and closely adhered to the annual operating plan to actively expand the service coverage and step up the efforts on the construction of water production and wastewater treatment projects. The Company improved the overall management standard, kept all the business departments and subsidiaries operating in a stable manner and recorded a stable growth in the results of operations. During the Reporting Period, the Company recorded a continuous growth in the revenue from principal businesses: revenue from the sales of tap water amounted to RMB179.4 million, representing an increase of 9.8% as compared to that of last year; revenue from the installation and maintenance service in respect of tap water supply segment amounted to RMB136.1 million, representing an increase of 3.3% as compared to that of last year; revenue from the wastewater treatment operating service amounted to RMB125.9 million, representing an increase of 15.5% as compared to that of last year. Profit after tax amounted to RMB140.8 million, representing a decrease of 2.5% as compared to that of last year, which was mainly attributable to the share reform in preparation for listing and the increase in interest expenses.

GENERAL MANAGER'S REPORT (Continued)

On 31 March 2017, the Company was successfully listed on the Stock Exchange with an issue price of HK$2.30 per Share and an issue size of 214,940,000 Shares (including the reduction of 19,540,000 state-owned Shares). The net proceeds raised from the IPO amounted to approximately HK$395.1 million. Thus, the Company has become the first state-owned controlling enterprise in Luzhou City, Sichuan Province to be independently listed on the Stock Exchange.

I. CORE COMPETITIVENESS

Luzhou is an important ecological barrier in the upper stream of the Yangtze River, with an immense space for water supply and wastewater treatment businesses. By virtue of Luzhou's unique geographic location and strategic importance, we are well positioned to constantly benefit from the increasingly growing demand for water supply and wastewater treatment in Southwest China.

The Company possesses comprehensive technical reserves and a pool of high-quality technical talents, and has put various systems in place, including the GIS system, district metered area (DMA) system, dispatch system and operating system, supporting with various resources that meet various needs in such aspects as technology, management, manpower, funds, market exploration and corporate culture. The Company will cooperate with outstanding design institutes and large-scale enterprises which will provide professional and technical support and assistance to the Group to conduct research on the optimization of water supply and drainage equipment, and share advanced water-related technologies and management practices and experience.

GENERAL MANAGER'S REPORT (Continued)

II. INDUSTRY COMPETITION LANDSCAPE AND DEVELOPMENT TREND

The municipal water supply market in China is highly fragmented with strong regional barriers. Local governments usually favor local state-owned enterprises to serve as the operators of municipal water supply plants. Although certain non-state-owned enterprises have successfully expanded the business in this market, state-owned enterprises are still likely to maintain a large market share in the future.

There are basically three types of participants in the municipal wastewater treatment market in China, namely state-owned enterprises, private domestic enterprises and foreign invested enterprises. This market is highly fragmented with hundreds of operating companies, and state-owned enterprises hold the majority of the market share. Moreover, private domestic enterprises are gradually growing into strong drivers for the market. There are also several foreign-invested wastewater treatment enterprises operating in China, which have expanded their business into China normally through the establishment of joint ventures.

Xinglu Water is a major municipal water supply and wastewater treatment service provider in Luzhou Area. As at the end of the Reporting Period, the Group was the largest tap water supplier in Luzhou Area with a market share of approximately 83.0% of county-level cities in Luzhou, and is also the only municipal wastewater treatment service provider in county-level cities of Luzhou Area.

Generally speaking, the water supply and drainage market in China is entering into the stage of maturity. During the 13th Five-Year Plan period, the government exerted more efforts on the infrastructure investment and construction for the water supply and drainage industry, and promulgated successively a series of industry policies and government plans regarding water-related businesses, laying a solid foundation for the development and future growth of the water supply and drainage market and even the entire water industry in China. The Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》) (the "Water Plan") specified the overall water pollution and water quality control objectives to be accomplished by China by 2020 and 2030. It is estimated that over RMB2 trillion will be invested in the Water Plan. Moreover, the MOF announced two batches of PPP demonstration projects on 30 November 2014 and 25 September 2015, respectively. The third batch of PPP projects announced on 11 October 2016 comprised 516 projects with a total investment of RMB1.17 trillion, accounting for nearly 10% of the project inventory. The projects mainly focused on the water-related construction in the central and eastern regions. Therefore, it can be seen that vigorously developing the investments and operation of PPP model-oriented water projects will become one of the main themes in China's water market during the 13th Five-Year Plan period.

Standing at a new starting point, the Company will actively grasp the historical development opportunities arising from the state's initiative of advocating green environmental protection. Based on the current core advantages, the Company will drive Grand Water whole industrial chain construction in respect of water supply and sewage, reinforce the two supporting points of capital and technology, explore new business models and seek new growth points so as to further increase the core competitiveness of the Company. While continuing to strengthen the leading industry position in Sichuan Province, the Company will actively implement industrial distribution in regions enjoying a competitive edge across the country (mainly in southwest area) by leveraging the power of the international capital market. The Company will make use of the Group's technology and funds to create environmentally friendly cities so as to strive to become a leading municipal water service provider.

III. DEVELOPMENT STRATEGY

In recent years, the Chinese government has been dedicated to coordinating and propelling the construction of integrated urban and rural water supply and drainage facilities and consolidating the infrastructures and public services in urban and rural areas. The Company will give its own advantages to full play, and strive to accomplish the environmental protection objective of providing water supply and drainage and pollution treatment services covering all the urban and rural areas in Luzhou City in strict compliance with such policies as the New-type Urbanization Planning (《國家新型城鎮化規劃》) and in line with the strategy of "urban and rural integration and overall regional development".

During the Reporting Period, after entering into strategic cooperation agreements with four governments at county or district level, including the government of Lu County and the government of Longmatan District, we entered into an integrated urban and rural water supply agreement with the government of Jiangyang District, Luzhou City, with a view to expanding the urban and rural integrated water supply business. In addition, we have been invited by the local governments of other regions not covered by our service to explore the business opportunities in the urban and rural water service industry, including the new construction or reconstruction of tap water plants and wastewater treatment plants as well as the participation in the construction and management of public infrastructures, etc.

To implement the strategy of "Go Global" and expand the tap water business into other cities and provinces, the Company obtained the list of the first batch of PPP projects in Sichuan Province for 2016, and sought cooperation on the relevant projects. In the meanwhile, the Company also paid on-site visits and performed due diligence on the projects that we intended to invest in outside Luzhou Area.

GENERAL MANAGER'S REPORT (Continued)

In order to explore the new construction and management models for secondary water supply suitable to us, and achieve the integrated construction and management of the secondary water supply works in the residences, we amended the Administrative Measures of Luzhou City for Secondary Water Supply (《瀘州市二次供水管理辦法》) and formulated the Group's own Implementation Plan for the Integrated Construction and Management of Secondary Water Supply Projects (《二次供水建管合一實施方案》), which set forth our internal rules for the management of secondary water supply. The Company also took the lead to communicate and keep in line with the resource price division and the cost supervision and examination bureau of the Development and Reform Commission of Luzhou, and prepared the Petition for Formulating the Interim Prices for the Secondary Water Supply of the Residents in Luzhou City (《關於制定我市居民生活二次供水暫行價格的請示》), which has been submitted to the Development and Reform Commission of Luzhou for examination.

The Company will exert continuous efforts in further expanding the industrial chain through the expansion of service area, M&As and strategic cooperation, while striving for synchronous development to give full play to the synergy effect and expand its competitive advantages.

IV. OPERATING PLAN

In 2017, the Company will firmly grasp the market opportunities arising from the PPP projects that are continuously emerging and the New-type Urbanization Planning (《新型城鎮化規劃》), and the favorable opportunity of accelerating development in the environmental protection market. The Company will actively participate in the market and strive to expand to other regions through multi-channel research and increasing investment in environmental protection businesses such as municipal water supply and wastewater treatment. The Company will improve the operation and management standards of the Company's own projects and continue to improve the Company's group-oriented management and the construction of the relevant smart water supply. The Company will also strive to save part of the costs through the overall planning of the existing resources of various subsidiaries and will deeply tap the potential to increase the profit level. With regard to internal management, the Company will enhance the capabilities of investment, operation, engineering, technology and equipment and mutual coordination and achieve the fast, efficient and steady development of our Company by mastering the relationships between scale and quality and between speed and effectiveness to create higher value for all the Shareholders.

V. CAPITAL PLAN

While meeting the needs of capital required by the existing investment projects, the Company will actively explore multi-channel low-cost financing packages in accordance with the Company's development needs, and optimize the debt structure to improve capital efficiency, providing effective capital support for the development of the Company.

VI. POSSIBLE BUSINESS RISKS

(1) Market expansion and investment risks

Although the Company maintains a dominant position in terms of the business in Luzhou Area, it still faces problems regarding the planning on the regions for expansion and the re-modification of the original water supply and drainage facilities. In order to solve such problems, we will take advantage of our extensive experience in take-overs and M&As in Luzhou Area and a reproducible management model to accomplish the business expansion in Luzhou Area through technical modification and management enhancement.

With respect to the business expansion in new regions, due to the strong barriers region-wise of the water supply market, local governments usually favor large-scale water enterprises outside the region under service with advantages in technology, capital and management to serve as the operators of municipal water supply plants. Therefore, we expect to enhance our capabilities in technology, capital and management through listing, thus enabling the Company to expand its business into Guizhou where cooperation and support intentions have been shown by the local government, so as to ensure the external business expansion of the Company through multiple cooperation modes.

(2) Operation and management risks

All the 12 companies currently held and invested in by the Company are located in four counties and three districts in Luzhou, Sichuan. Combined with the establishment of the internal control system, the Company further improved the operation and management system and the business process, strengthened the cultural construction of the subsidiaries, and established and advocated a unified corporate culture conforming to the features of Xinglu Water. The Company has been constantly training middle management and brings its management, operation and culture philosophies to the subsidiaries in different localities through constantly replenishing the backbone. Meanwhile, the Company will enhance the overall cohesion and solidarity through mutual assistance and communication among subsidiaries.

(3) Cost control risks

In recent years, prices of energy, labor and raw materials have been continuously increasing, which has led to greater inflation pressure, and therefore, the Company must enhance the control over and management of the operation, investment and engineering costs. Countermeasures: on the one hand, the Company will improve internal management while focusing on regulating management, and enhance the management of and control over companies invested in and controlled by the Company and adopt measures such as training, supervision and inspection to strive to improve management capability; on the other hand, the Company will put emphasis on talent reservation and cultivation. With the rapid development of its operations, professional and efficient technical personnel have become a strong support for the Company on the road ahead.

GENERAL MANAGER'S REPORT (Continued)

(4) Policy risks

Environmental protection projects such as water and wastewater are characterized by their public welfare nature and long investment cycles. Given the fact that the country's economic growth is subject to cyclical changes with differences in the specific situations of different localities and that the time and extent for the adjustment of water prices are also subject to certain uncertainties, water investments are subject to certain policy risks as well as restrictions from laws, policies and local regulations.

Countermeasures of Xinglu Water: Environmental protection is a key basic industry supported by the state. In recent years, the state has introduced various policies to provide support. With the demand for environmental protection becoming increasingly urgent, the overall policy for the environmental protection industry will be positive over a long period of time. The Company will pay close attention to changes in the state's macroeconomic policies and take full advantage of the preferential policies provided by the state to enhance the collection, study and analysis of market and industrial policy information. Through adjusting the internal business structure, the Company will improve the standard of scientific decision making of its management, and enhance the Company's resilience and the ability to resist policy risks.

The rapid growth of the Company in 2016 was attributable to the loyal employees who had made relentless efforts in contributing to the development of the Company and the support and assistance provided by the Shareholders and people from all walks of life.

On behalf of the management of the Company, I would like to express my deep appreciation to employees of all departments and subsidiaries for their contributions and would also like to express by heartfelt gratitude to the Shareholders and people from all walks of life for their long-term support and trust. The Company will strictly abide by the Listing Rules, grasp development opportunities and improve operation and management to reward the Shareholders with better results for their trust and make contributions to the society.

Liao Xingyue
General Manager

Luzhou, China
24 April 2017

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

Generally speaking, China's water supply and drainage market is entering into a stage of maturity, and a series of water related industry policies and government plans have been promulgated successively, laying a solid foundation for the development and future growth of the water supply and drainage market and even the entire water industry in China. In April 2015, the Ministry of Environmental Protection ("MEP") promulgated the Water Plan, which specified the overall water pollution and water quality control objectives to be accomplished by China by 2020 and 2030. It is estimated that over RMB2 trillion will be invested in the Water Plan. Moreover, greater efforts will be put to supervise city water supply, recycled water, sewage treatment, black odorous river control, industrial wastewater, comprehensive control over pollutant emissions, etc., and stringent accountability system will be implemented accordingly. The "new normal" of fighting against pollution with an iron arm will come. Viewing the policy orientation under the Water Plan, black odorous river control, recycled water, sludge treatment and the development and building of areas including sponge cities will become the hotspots and key areas to be built in China's water industry in the future.

As investment hotspots continue to emerge in China's water industry, the PPP mode, a new financing model of cooperation between government and social capital on infrastructure construction, will also be one of the hotspots in China's water industry in the future. Desirable benefits have been achieved in the two batches of PPP demonstration project announced on 30 November 2014 and 25 September 2015, respectively. On 11 October 2016, the Ministry of Finance, the Ministry of Environmental Protection, the Ministry of Water Resources and other government authorities jointly announced the third batch of 516 PPP projects in total with a total investment of RMB1.17 trillion, accounting for nearly 10% of the project inventory. The projects mainly focused on the water-related construction in the central and eastern regions, among which there were 40 projects of wastewater treatment and waste power generation respectively, involving various areas including water supply, wastewater, recycled water, raw water and water environment control. Therefore, it can be seen that vigorously developing the investments and operation of PPP model-oriented water projects will become one of the main themes in China's water industry during the 13th Five-Year Plan period.

With the implementation of prevention and control plans including the Action Plan for Air Pollution Prevention and Control (《大氣污染防治行動計劃》), the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》), the Action Plan for Soil Pollution Prevention and Control (《土壤污染治理行動計劃》) and the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) driven by national strategies, it is expected to bring huge market opportunities and development potential for the water industry and solid waste treatment related environmental protection industries in China in the future. Water enterprises will benefit from the rapid acceleration of urbanization process in China and the policy support of the Chinese government for the environmental protection industry. The Board expects that the scale of such businesses will be further expanded, and investors in the capital markets will gradually pay more attention to environmental protection industry.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

II. BUSINESS REVIEW

Our Tap Water Supply Services

During the Reporting Period, we continued to serve as an integrated municipal water service provider in Sichuan Province. As at the end of the Reporting Period, our tap water sales volume was approximately 82.4 million tons, representing an increase of 8.1% as compared with approximately 76.2 million tons for the year ended 31 December 2015. The increase in tap water sales volume led to an increase of revenue generated from sales of tap water from external customers by 9.8%, from RMB163.3 million for the year ended 31 December 2015 to RMB179.4 million as at the end of the Reporting Period, and also helped to keep our revenue generated from tap water supply segment from external customers stable at RMB529.7 million as at the end of the Reporting Period, as compared to RMB531.6 million for the year ended 2015.

During the Reporting Period, we further strengthened our tap water supply capacity in Luzhou Area. The aggregate designed supply capacity of our water supply plants increased by 19.1%, from 235,500 tons per day as of 31 December 2015 to 280,500 tons per day as at the end of the Reporting Period. Alongside the population and economic growth in Luzhou Area, our total number of tap water end user accounts also increased to approximately 262,730 as at the end of the Reporting Period, from 240,533 as of 31 December 2015.

Our Wastewater Treatment Services

During the Reporting Period, we continued to be a key municipal wastewater treatment service provider in Luzhou Area. To meet fast growing demand, we had constructed new wastewater treatment plants and expanded processing capacity of certain existing plants. As at the end of the Reporting Period, we had a total of 9 wastewater treatment plants in operation and an aggregate designed wastewater treatment capacity of 261,000 tons per day, as compared to a total of 7 plants and an aggregate designed capacity of 235,000 tons per day, as of 31 December 2015.

In addition, alongside the increase in our wastewater treatment capacity, our revenue generated from wastewater treatment operating services increased by 15.5% from RMB109.0 million, for the year ended 31 December 2015, to RMB125.9 million, as at the end of the Reporting Period. Our total treatment volume also increased to 48.7 million tons as at the end of the Reporting Period, as compared to 44.6 million tons for the year ended 31 December 2015.

III. FINANCIAL REVIEW

Analysis of Key Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

Revenue decreased by 8.3% from RMB911.9 million for the year ended 31 December 2015 to RMB836.2 million for the year ended 31 December 2016.

Tap water supply

Sales of tap water

Revenue generated from sales of tap water increased by 9.8% from RMB163.3 million for the year ended 31 December 2015 to RMB179.4 million for the year ended 31 December 2016. The increase was primarily due to a growth in the sales volume from approximately 76.2 million tons for the year ended 31 December 2015 to approximately 82.4 million tons for the year ended 31 December 2016. Revenue generated from sales of tap water accounted for 17.9% and 21.4% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Installation and maintenance services

Revenue generated from installation and maintenance services increased by 3.3% from RMB131.8 million for the year ended 31 December 2015 to RMB136.1 million for the year ended 31 December 2016. The increase was partially due to an increase in installation projects for residential users we completed for the year ended 31 December 2016. Revenue generated from installation and maintenance service accounted for 14.4% and 16.3% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Construction and upgrade on tap water supply infrastructure

Revenue generated from construction and upgrade on tap water supply infrastructure decreased by 9.4% from RMB236.4 million for the year ended 31 December 2015 to RMB214.2 million for the year ended 31 December 2016. Such decrease was mainly due to a decrease in the amount of construction works of the pre-operational projects of Qiancao Supply Plant II and Nanjiao Supply Plant II, partially offset by an increase in the amount of upgrade works for operational projects of water supply pipeline network, for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Wastewater treatment

Operating services

Revenue generated from operating services of wastewater treatment increased by 15.5% from RMB109.0 million for the year ended 31 December 2015 to RMB125.9 million for the year ended 31 December 2016. The increase was primarily due to the increase in wastewater treatment capacity as we were entitled to a guaranteed minimum treatment tariff after we commenced trial operation upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant from July 2016. Our total treatment volume was 44.6 million tons and 48.7 million tons for the year ended 31 December 2015 and 2016, respectively. Revenue generated from wastewater treatment operation accounted for 12.0% and 15.1% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Interest income on receivables under service concession arrangements

Interest income on receivables under service concession arrangements increased by 43.2% from RMB19.0 million for the year ended 31 December 2015 to RMB27.2 million for the year ended 31 December 2016. The increase was mainly due to the increase in receivables under service concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Chengdong Treatment Plant and Chengnan Treatment Plant commencing in July 2016, following their trial operations.

Construction and upgrade on wastewater treatment infrastructure

Revenue generated from construction and upgrade on wastewater treatment infrastructure decreased by 39.2% from RMB252.4 million for the year ended 31 December 2015 to RMB153.4 million for the year ended 31 December 2016. The decrease was mainly due to the decrease of such revenue from Chengdong Treatment Plant and Chengnan Treatment Plant because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by June 2016.

Cost of sales and services

Cost of sales and services decreased by 11.1% from RMB699.4 million for the year ended 31 December 2015 to RMB621.6 million for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Tap water supply

Sales of tap water

Cost of sales and services associated with sales of tap water increased by 19.6% from RMB122.5 million for the year ended 31 December 2015 to RMB146.5 million for the year ended 31 December 2016. The increase was primarily due to the significant increase in maintenance expenses for the year ended 31 December 2016. Cost of sales and services from tap water supply operations accounted for 17.5% and 23.6% of our total cost of sales and services for the year ended 31 December 2015 and 2016, respectively.

Installation and maintenance services

Cost of sales and services associated with installation and maintenance services increased by 25.2% from RMB29.2 million for the year ended 31 December 2015 to RMB36.5 million for the year ended 31 December 2016. The increase was mainly due to the increase in the volume of installation and maintenance work we undertook.

Construction and upgrade on tap water supply infrastructure

Cost of sales and services from construction and upgrade on tap water supply infrastructure decreased by 9.4% from RMB235.9 million for the year ended 31 December 2015 to RMB213.7 million for the year ended 31 December 2016. The decrease was mainly due to a decrease in the amount of construction works of the pre-operational projects of Qiancao Supply Plant II and Nanjiao Supply Plant II, partially offset by an increase in the amount of upgrade works for operational projects of water supply pipeline network, for the year ended 31 December 2016.

Wastewater treatment

Operating service

Cost of sales and services from wastewater treatment operating services increased by 20.0% from RMB59.7 million for the year ended 31 December 2015 to RMB71.6 million for the year ended 31 December 2016. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment plant and Chengnan Treatment Plant from July 2016. Cost of sales and services from wastewater treatment operating services accounted for 8.5% and 11.5% of our total cost of sales and services for the year ended 31 December 2015 and 2016, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Construction and upgrade on wastewater treatment infrastructure

Cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 39.2% from RMB252.2 million for the year ended 31 December 2015 to RMB153.3 million for the year ended 31 December 2016. The decrease was mainly because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by June 2016.

Gross profit and gross profit margin

As a result of above, our gross profit remained stable at RMB212.5 million and RMB214.6 million for the year ended 31 December 2015 and 2016, respectively. Gross profit margin remained stable at 23.3% and 25.7% for the year ended 31 December 2015 and 2016, respectively.

Tap water supply

Sales of tap water

The gross profit for sales of tap water under tap water supply operations decreased by 19.6% from RMB40.9 million for the year ended 31 December 2015 to RMB32.9 million for the year ended 31 December 2016. The corresponding gross profit margin decreased from 25.0% for the year ended 31 December 2015 to 18.3% for the year ended 31 December 2016, primarily due to an increase in maintenance expenses.

Installation and maintenance services

The gross profit for installation and maintenance services decreased by 2.9% from RMB102.6 million for the year ended 31 December 2015 to RMB99.6 million for the year ended 31 December 2016. The corresponding gross profit margin remained stable at 77.9% and 73.2% for the year ended 31 December 2015 and 2016, respectively.

Construction and upgrade on tap water supply infrastructure

The gross profit for construction and upgrade on tap water supply infrastructure remained stable at RMB518,000 and RMB493,000 for the year ended 31 December 2015 and 2016, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II and Nanjiao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% and 0.2% for the years ended 31 December 2015 and 2016, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Wastewater treatment

Operating service

The gross profit for wastewater treatment operating services increased by 10.0% from RMB49.3 million for the year ended 31 December 2015 to RMB54.3 million for the year ended 31 December 2016. The corresponding gross profit margin decreased from 45.3% for the year ended 31 December 2015 to 43.1% for the year ended 31 December 2016. The decrease in gross profit margin was mainly due to (i) increased provision for maintenance as Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant started trial operation in July 2015, July 2016 and July 2016, respectively, and (ii) newly imposed VAT starting from July 2015 pursuant to the implementation of the "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilization of Resources" (Cai Shui [2015] No. 78).

Construction and upgrade on wastewater treatment infrastructure

The gross profit for construction and upgrade on wastewater treatment infrastructure increased, from RMB153,000 for the year ended 31 December 2015 to RMB171,000 for the year ended 31 December 2016, respectively. Such gross profit is determined by independent valuer, Savills, with reference to gross profit margin of the comparable projects in the relevant period. Such gross profit was primarily derived from the construction of Chengdong Treatment Plant and Chengnan Treatment Plant. The corresponding gross profit margin remained stable at 0.1% and 0.1% for the year ended 31 December 2015 and 2016, respectively.

Other Income, Expenses, Gains and Losses, Net

Other income, expenses, gains and losses, net increased significantly from RMB19.3 million for the year ended 31 December 2015 to RMB33.4 million for the year ended 31 December 2016. The increase was primarily attributable to a VAT refund starting from July 2015 pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) in connection with our wastewater treatment operations.

Selling and Distribution Expenses

Selling and distribution expenses increased by 20.0% from RMB8.3 million for the year ended 31 December 2015 to RMB10.0 million for the year ended 31 December 2016. The increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and to a lesser extent an increase in the salary of our employees.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Administrative Expenses

Administrative expenses increased by 19.7% from RMB38.7 million for the year ended 31 December 2015 to RMB46.3 million for the year ended 31 December 2016. The increase was mainly due to (i) an increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and to a lesser extent an increase in the salary of our employees; and (ii) the increase in legal and other professional fees.

Finance Costs

Finance costs increased by 67.1% from RMB14.4 million for the year ended 31 December 2015 to RMB24.1 million for the year ended 31 December 2016, primarily due to an increase in our borrowings and the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant.

Income Tax Expense

Income tax expenses were RMB25.9 million and RMB25.0 million for the year ended 31 December 2015 and 2016, representing effective tax rate of 15.2% and 15.1%, respectively.

Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax decreased slightly by 2.5% from RMB144.4 million for the year ended 31 December 2015 to RMB140.8 million for the year ended 31 December 2016. Our profit after tax margin remained stable at 15.8% and 16.8% for the year ended 31 December 2015 and 2016.

Analysis of Key Items of Consolidated Statement of Financial Position

Property, Plant and Equipment

Our property, plant and equipment was RMB39.7 million and RMB37.0 million as of 31 December 2015 and 2016, respectively, which consisted primarily of office buildings, machinery and office equipment, office equipment and fixtures and vehicles. Property, plant and equipment decreased from RMB39.7 million as of 31 December 2015 to RMB37.0 million as of 31 December 2016, mainly due to annual depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Intangible Assets

Intangible assets were RMB1,070.9 million and RMB1,022.1 million as of 31 December 2015 and 2016, respectively. Our intangible assets decreased from RMB1,070.9 million as of 31 December 2015 to RMB1,022.1 million as of 31 December 2016, primarily as a result of the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. The decrease was partially offset by an increase of RMB367.7 million due to the amount of construction and upgrade work we completed for our construction and upgrade projects.

Receivables under Service Concession Arrangements

The receivables under service concession arrangements were RMB390.8 million and RMB773.2 million as of 31 December 2015 and 2016, respectively, among which RMB386.0 million and RMB761.9 million, were classified as non-current, respectively. Such receivables increased from RMB390.8 million as of 31 December 2015 to RMB773.2 million as of 31 December 2016, primarily due to the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. Pursuant to the relevant concession operational agreements and service agreements for these two plants, the local governments guarantee to pay us based on the relevant minimum treatment volumes.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Inventories

Our inventories consisted primarily of raw materials, including water pipes and other gadgets related to tap water supply and pipeline installation and maintenance, and was RMB17.5 million and RMB17.4 million, as of 31 December 2015 and 2016, respectively. The table below sets forth the breakdown of our inventory as of the indicated dates:

	At 31 December			
	2016		2015	
	RMB'000	**%**	*RMB'000*	*%*
Raw materials	**15,871**	**91.2**	15,887	91.0
Consumables	**1,063**	**6.1**	1,119	6.4
Finished goods	**461**	**2.7**	459	2.6
Total	**17,395**	**100.0**	17,465	100.0

The table below sets forth the average turnover days of our inventories for the indicated periods:

	Year ended 31 December	
	2016	2015
Average inventory turnover days[(1)]	**25**	32

Note:

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of revenue (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our average inventory turnover days is a more accurate reflection of our operation.

Our average inventory turnover days decreased from 32 days for the year ended 31 December 2015 to 25 days for the year ended 31 December 2016 primarily as a result of our enhanced internal control over inventory.

Trade Receivables

Our trade receivables were RMB71.3 million and RMB83.7 million, as of 31 December 2015 and 2016, respectively.

The table below sets forth the average turnover days of our trade receivables for the indented periods.

	Year ended 31 December	
	2016	2015
Average trade receivables turnover days[1]	**60**	60

Note:

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water and installation and maintenance services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition.

Our average trade receivables turnover days remained stable at 60 days for the year ended 31 December 2015 and 2016.

Trade Payables

Our trade payables were RMB5.3 million and RMB10.4 million, respectively as of 31 December 2015 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The table below sets forth the average turnover days of our trade payables for the indicated periods:

	Year ended 31 December	
	2016	2015
Average trade payables turnover days[(1)]	**11**	12

Note:

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period. We excluded cost of sales and services from our construction and upgrade services because our accounts payable include payables incurred from our sales of tap water and installation and maintenance services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition.

Our average trade payables turnover days for the year ended 31 December 2016 remained stable at 11 days compared to 12 days for the year ended 31 December 2015.

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	Year ended 31 December	
	2016	2015
Average trade and construction payables turnover days[(1)]	**84**	40

Note:

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 40 days for the year ended 31 December 2015 to 84 days for the year ended 31 December 2016. The increase was primarily because of our increased payables incurred in relation to various tap water supply and wastewater treatment projects, including Chengdong Treatment Plant and Chengnan Treatment Plant.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Deferred Revenue

Our deferred revenue was RMB127.3 million and RMB128.6 million as of 31 December 2015 and 2016, respectively. The slight increase in deferred revenue from RMB127.3 million as of 31 December 2015 to RMB128.6 million as of 31 December 2016 was mainly due to the increase in balance arising from a government grant for our installation and construction projects as a result of our business expansion.

Advance from Customers and Other Payables

Advance from customers and other payables increased from RMB218.7 million as of 31 December 2015 to RMB319.9 million as of 31 December 2016 was primarily attributable to increase in (i) advance from customers; (ii) construction payables and deposits received; and (iii) payables to governmental bureau, partially offset by decrease in (i) payable for purchases of wastewater treatment plants; and (ii) other taxes payable.

Our liquidity and financial resources

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year. The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

During the Reporting Period, the cash and cash equivalents of the Group amounted RMB526.6 million (31 December 2015: RMB289.3 million)

As at the end of the Reporting Period, the total borrowings of the Group amounted RMB685.3 million (31 December 2015: RMB490.9 million), including bank and other borrowings. More than 84% of our bank and other borrowings bears interest at floating rate. For details of our borrowings, please see note 26 to the financial statements.

As at the end of the Reporting Period, the net debts to equity ratio of the Group was 11.2% (31 December 2015: 18.4%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

IV. OUTLOOK

In recent years, the PRC government has promulgated a series of policies to support and stimulate the growth of municipal water related industries. According to the Outline of the Twelfth Five-year Plan on Economic and Social Development (《國民經濟和社會發展十二五規劃綱要》), the environmental protection industry was listed as one of the strategic emerging industries. In April 2015, the State Council promulgated the Action Plan for Water Pollution Prevention and Control (水污染防治行動計劃), which according to the Frost & Sullivan Report, is a plan that is expected to lead to significant government investments and initiatives in municipal water supply and wastewater treatment businesses. We believe we will also benefit from the economic growth of Luzhou Area and the further development of the Southwestern China. For instance, the PRC government has recently proposed the establishment of the Yangtze River Economic Zone and Chengdu-Chongqing Economic Zone, which we believe will benefit the development of these areas. In February 2015, NDRC announced the Tentative Comprehensive National Plan for New Urbanisation (國家新型城鎮化綜合試點方案), which designated 62 cities and counties as experimental sites for the implementation of a series of urbanisation policies. Luzhou City is one of the two designated cities in Sichuan Province. We believe these policies will bring new economic growth opportunities to Luzhou Area, which will in turn stimulate demand for municipal water services.

We believe we can leverage our operational experience and market position in Luzhou Area to expand into suburbs and rural areas as well as other geographic areas. We plan to continue to use a combination of organic growth and strategic acquisitions for our expansion.

V. MAJOR ACQUISITION AND DISPOSAL

During the Reporting Period, the Company did not have any major acquisition and disposal of subsidiaries, associates and joint ventures.

VI. PLEDGES OF THE GROUP'S ASSETS

During the Reporting Period, the secured bank borrowings of the Group were secured by the charging right for certain wastewater treatment fees and bore interest at floating rate of 4.90% per annum. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any assets.

VII. FOREIGN EXCHANGE RISKS

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group had a borrowing from The World Bank that is US$ denominated. The Group does not currently hedge its exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

VIII. CONTINGENT LIABILITIES

As at the end of the Reporting Period, our Group did not have any material contingent liabilities.

IX. MAJOR INVESTMENT PLAN

Save as disclosed in the Prospectus, we did not have any further plan to make significant investments or purchase capital assets.

X. SUBSEQUENT EVENTS

1. On 31 March 2017, the Company was successfully listed on the Stock Exchange.

2. On 31 March 2017, the Company entered into an EPC full contracting and supervision contract for upgrading and capacity extension project of Yaerdang Wastewater Treatment Plant, and the project was launched.

3. Save as disclosed in the consolidated financial statements, in February 2017, a subsidiary of the Company obtained an unsecured bank borrowing of RMB10,000,000 which bears interest at a floating rate of 4.79% per annum and is repayable in February 2018. The repayment of this bank borrowing is guaranteed by another subsidiary of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS:

Mr. Zhang Qi (張歧先生), aged 43, joined our Group in February 1992 and served as the Chairman of the Board and an executive Director as at the Latest Practicable Date. He is primarily responsible for the overall operation of the Board, strategic development and planning and major decision making of our Group. He has also served as a director of our Controlling Shareholder, namely, Xinglu Investment, since March 2008, and the vice chairman of the board of directors of Sichuan Xiangjiaba Irrigation Construction and Development since March 2015. Mr. Zhang has more than 24 years of experience in the wastewater treatment and tap water supply services industries. He joined Luzhou City Tap Water Co., Ltd.* (瀘州市自來水總公司) ("Luzhou Tap Water") as a worker in February 1992, then he served as a section chief assistant of business section from May 1998 to July 1999, as a vice section chief of business section from July 1999 to March 2001, and as a deputy general manager from March 2001 to July 2002. He served as the vice chairman of the Board and the general manager from July 2002 to December 2005, and was promoted and served as the Chairman of the Board and the general manager from December 2005 to December 2006. He also served as the general manager of Luzhou Jiangyang Wastewater Treatment Co., Ltd.* (瀘州江陽污水處理有限公司) (currently known as Luzhou Xinglu Waste Water Treatment Co., Ltd. ("Xinglu Wastewater Treatment")) from December 2003 to May 2005, and as the chairman of the board of directors of Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. ("Beijiao Water") from 20 June 2011 to 24 May 2015. Subsequently, he served as a director and the general manager of our Company from December 2006 to September 2015, and was re-appointed as the chairman of the Board and the chairman of the board of directors of Xinglu Wastewater Treatment from September 2015 to March 2016. Mr. Zhang graduated from Sichuan University of Construction Workers* (四川省建築職工大學) in Chengdu, the PRC, majoring in industrial and civil construction in July 1994 and then obtained a master's degree majoring in business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in July 2007. Mr. Zhang obtained the qualification as senior engineer in drainage granted by Personnel Department of Sichuan Province* (四川省人事廳) in September 2009.

Mr. Liao Xingyue (廖星樾先生), aged 35, joined our Group in December 2015 and served as an executive Director and the general manager of our Company as at the Latest Practicable Date, mainly responsible for our Group's daily operation matters. Mr. Liao has nearly 8 years of experience of municipal infrastructure planning, investment, construction and management. Before joining our Group, Mr. Liao served as a clerk* (辦事員) in Lu County Construction Bureau* (瀘縣建設局) from September 2009 to May 2010, and served in Lu County Housing and Urban-rural Planning and Construction Bureau* (瀘縣住房和城鄉規劃建設局) as the deputy director of general office from May 2010 to August 2013 and as the chief of personnel department from July 2011 to August 2013. He then served as an officer* (科員) and the vice chief of inspection section* (監督科), successively, in Luzhou Municipal Urban Planning Administration Bureau* (瀘州市城市規劃管理局) from August 2013 to December 2014 and served as the chief of urban planning and construction section* (城市建設科) in Luzhou Municipal Housing and Urban and Rural Construction Bureau* (瀘州市住房和城鄉建設局) from December 2014 to December 2015. Mr. Liao graduated from Tong Ji University in Shanghai, the PRC, with a bachelor degree, a master degree and a doctor's degree majoring in geological engineering in July 2003, May 2006 and May 2009, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Wang Junhua (王君華先生), aged 52, joined our Group in April 2001 and served as an executive Director and a deputy general manager of our Company as at the Latest Practicable Date. Mr. Wang is responsible for the management of water supply service and project constructions, and in charge of enterprise management department and projects office of our Company. Mr. Wang has also served as the chairman of the board of Luzhou Xinglu Water Group Jiangnan Water Co., Ltd. ("Jiangnan Water") since October 2011, the chairman of the board of Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. since April 2013, a director of Xinglu Wastewater Treatment since September 2014 and a supervisor of Luzhou Communication Investment Group Co., Ltd.* (瀘州市交通投資集團有限責任公司) since July 2011. Mr. Wang has more than 30 years of experience in the wastewater treatment and tap water supply services industries. He started his career in Luzhou City Anfu Water and Electronic Supply Co., Ltd.* (瀘洲市安富供水供電公司) in March 1986. He then served as an assistant manager of our predecessor, Luzhou Tap Water, and our Company from April 2001 to September 2002. Mr. Wang joined Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. ("Naxi Water") and served as the deputy manager from June 2001 to July 2002 and as the manager of Naxi Water from July 2002 to December 2009, and as the chairman of the board of directors of Naxi Water from January 2006 to June 2011. He was appointed as a Director and a deputy general manager of our Company in December 2006 and January 2010, respectively. He also served as the chairman of the board of Luzhou Nanjiao Water Co., Ltd. ("Nanjiao Water") from December 2013 to February 2014, as the chairman of the board of Luzhou Sitong Tap Water Engineering Co., Ltd. ("Sitong Engineering") from August 2013 to May 2015, and as the chairman of the board of Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. ("Sitong Design") from March 2013 to November 2015. Mr. Wang graduated from Sichuan University in Chengdu, the PRC, majoring in philosophy in July 1989, and from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) in Chengdu, the PRC, majoring in law in December 2005. Mr. Wang then graduated from Southwest Communications University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in March 2012. Mr. Wang obtained the qualification as a senior administration engineer granted by professional evaluation leading group for enterprise ideological and political personnel in Sichuan province* (四川省企業思想政治工作人員專業職務評定工作領導小組) in November 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

NON-EXECUTIVE DIRECTORS

Mr. Chen Bing (陳兵先生), aged 46, joined in our Group in December 2012 and served as a non-executive Director as at the Latest Practicable Date. He concurrently acted as the deputy general manager of Xinglu Investment, our Controlling Shareholder, a director of Luzhou Infrastructure, a director of Chuantie (Luzhou) Railway Co., Ltd.* (川鐵(瀘州)鐵路有限責任公司), the chairman of the board of directors and legal representative of Luzhou Rural Development, Investment and Construction Co., Ltd.* (瀘州市農村開發投資建設有限公司), a supervisor of South Sichuan Interurban Railway Co., Ltd.* (川南城際鐵路有限責任公司), a director of Sino-trains Luzhou Port Bonded Logistics Co., Ltd.* (中外運瀘州港保稅物流有限公司), the chairman of the supervisors committee of Sichuan Xuda Railway Limited* (四川敘大鐵路有限責任公司) and Longma Xingda Petty Loan Co., Ltd.* (龍馬興達小額貸款股份有限公司) and a director of Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘洲市城南建設投資有限公司). Mr. Chen has over 21 years of experience of corporate management. Before joining our Group, Mr. Chen served in Sichuan Luzhou Investment Co., Ltd.* (四川省瀘州投資公司) as the deputy manager and the manager of securities department from October 1995 to May 1997 and from May 1997 to July 2001 respectively. He served as the manager of investment department of Luzhou Infrastructure from July 2001 to July 2004. He then served positions in Xinglu Investment as the manager of investment department from August 2004 to July 2010, as an assistant general manager from December 2006 to July 2010, as the manager of engineering department from November 2008 to July 2009, and was promoted as the deputy general manager in October 2012. He also served as the general manager and chairman of board of directors of Xinglu Wastewater Treatment from May 2005 to December 2007 and from June 2005 to September 2015 respectively. Mr. Chen graduated from Zhengzhou Institute of Aeronautical Industry Management* (鄭州航空工業管理學院) located in Zhengzhou, the PRC, majoring in operation management in July 1992, then graduated from Party College of Sichuan Province* (中共四川省委黨校) in Chengdu, the PRC, in June 2004, and then obtained an executive master of business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in January 2011. Mr. Chen has been accredited as an assistant economist by Planning Committee of Luzhou City* (瀘州市計劃委員會) in April 1994 and obtained the certificate as a drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in July 2010.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Yang Ronggui (楊榮貴先生), aged 55, joined our Group in May 2007 and served as a non-executive Director as at the Latest Practicable Date. Mr. Yang concurrently served as the general legal counsel of Xinglu Investment and a director of Xinglu Wastewater Treatment since September 2011 and May 2007, respectively, and served as a director of several subsidiaries of Xinglu Investment since May 2007, including Luzhou Infrastructure, Luzhou Huarun Xinglu Gas Co., Ltd.* (瀘州華潤興瀘燃氣有限公司), Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘洲市興瀘融資擔保有限公司), Luzhou Xinglu Agriculture Financing Secured Co., Ltd.* (瀘州市興瀘農業融資擔保有限公司), Luzhou Jiangyang District Xinglu Hongyang Petty Loan Co., Ltd.* (瀘州市江陽區興瀘鴻陽小額貸款有限公司), Luzhou Xinglu Environmental Protection Development Co., Ltd.* (瀘州市興瀘環保發展有限公司) and Luzhou Xinglu Taxi Co., Ltd.* (瀘州市興瀘出租車有限公司), a supervisor of several subsidiaries of Xinglu Investment, including Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘洲市城南建設投資有限公司), Sichuan Yusheng Wine Industry Investment Management Co., Ltd.* (四川宇晟酒業投資管理有限公司) and Luzhou Yunlong Airport Development Co., Ltd.* (瀘州雲龍機場空港發展有限責任公司). Mr. Yang has over 33 years of experience in legal affairs and over 9 years of experience in corporate management. Before joining our Group, Mr. Yang started his career by serving as a lawyer and the vice director in legal consultant office in Lu County* (瀘縣法律顧問處) from September 1981 to April 1990 and from April 1990 to April 1992, respectively. He then served as the head of Lu County Law Firm* (瀘縣律師事務所) from April 1992 to October 1996. He served as the deputy director of Bureau of Justice of Lu County* (瀘縣司法局) from October 1996 to May 2000, the director of Legislative Bureau of the People's Government of Lu County* (瀘縣人民政府法制局) from May 2000 to October 2001, the deputy director of general office of the People's Government of Lu County* (瀘縣人民政府辦公室) and the director of legislative office of the People's Government of Lu County* (瀘縣人民政府法制辦) from October 2001 to June 2005 and the director of Bureau of Justice of Lu County* (瀘縣司法局) from June 2005 to September 2005. He then served positions in Xinglu Investment as a deputy manager of investment department from September 2005 to March 2006, as the manager of asset management department and legal counsel from March 2006 to April 2014, as the manager of production safety department from July 2013 to April 2014, and a manager of audit department from April 2014 to December 2015. Mr. Yang graduated from Sichuan Radio and Television University* (四川廣播電視大學) in Chengdu, the PRC, majoring in politics in July 1986, from Southwestern College of Political Science and Law* (西南政法學院) in Chengdu, the PRC, majoring in law in December 1990, and obtained a bachelor's degree from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in law in May 1998. Mr. Yang obtained the title of third level lawyer* (三級律師) granted by Professional Title Reform Leading Group of Lu County* (瀘縣職稱改革工作領導小組) in March 1994.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Ms. Xu Yan (徐燕女士), aged 51, joined our Group in December 2014 and served as a non-executive Director as at the Latest Practicable Date. Ms. Xu has also served as the chairman of the board of directors of Longma Xingda Petty Loan Co., Ltd.* (龍馬興達小額貸款股份有限公司) since December 2011, as a director of Luzhou Commercial Bank Co., Ltd.* (瀘州市商業銀行股份有限公司) since December 2012 and as the general manager of the finance center of Luzhou Laojiao since November 2015. Ms. Xu has 21 years of experience of accounting and financial management. Before joining our Group, Ms. Xu served as the financial manager of Luzhou Laojiao Hotel* (瀘州老窖大酒店) from December 1995 to December 1996, as the chief of financial of the Luzhou Laojiao Automobile Transportation Company* (瀘州老窖汽車運輸公司) from January 1997 to December 1998, as the financial executive of the third branch of Luzhou Laojiao Co., Ltd.* (瀘州老窖股份有限公司三公司) from January 1999 to November 2000, and then she served positions in Luzhou Laojiao, as a financial staff from December 2000 to April 2004, as the financial executive, the deputy director of financial center and the director of financial center from May 2005 to October 2015 successively. Ms. Xu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, majoring in accounting in December 1992 and from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in accounting finance in December 1999. Ms. Xu obtained the qualification as senior international finance manager granted by International Financial Management Association in November 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Ming'an (辜明安先生), aged 51, was appointed as our independent non-executive Director, the chairman of the nomination and remuneration committee and a member of the audit committee (performed his duties since 9 March 2017) taking effect on the Listing Date. He concurrently acted as a professor in Southwestern University of Finance and Economics* (西南財經大學). Mr. Gu also served as an independent director in several companies listed in Shenzhen Stock Exchange, including Sichuan Renzhi Oilfield Technology Services Co., Ltd. (四川仁智油田技術服務股份有限公司) (stock code: 002629), Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司) (stock code: 000628) and Sichuan Troy Information Technology Co., Ltd. (四川創意資訊技術股份有限公司) (stock code: 300366) since August 2014, August 2015 and December 2015, respectively. Mr. Gu has over 27 years of experience in teaching and research. Mr. Gu worked in Chengguang Chemical Research Institute of Chemical Industry Ministry* (化工部成光化工研究院) from July 1989 to July 1993, and then he worked at Sichuan Institute of Chemical Industry* (四川輕化工學院) (currently known as Sichuan University of Science and Engineering* (四川理工學院)) from July 1993 to July 1999. Mr. Gu started to serve positions in Southwestern University of Finance and Economics* (西南財經大學) from July 1999, and was engaged as an associate professor and a professor in 2002 and 2008, respectively. Mr. Gu graduated from Southwest China Normal University* (西南師範大學) in Chongqing, the PRC, with a bachelor's degree majoring in politics in July 1989 and graduated from Southwestern University of Political Science and Law* (西南政法大學) in Chongqing, the PRC, with a master's degree majoring in law in July 1999, then Mr. Gu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a doctor's degree in 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Lin Bing (林兵先生), aged 48, was appointed as our independent non-executive Director taking effect on the Listing Date. He concurrently acted as a general manager in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) and a professor in Sichuan University of Science and Engineering* (四川理工學院). Mr. Lin has over 26 years of experience in the engineering field. Mr. Lin served in Zigong Academy of Urban Planning and Design* (自貢市城市規劃設計研究院) from July 1990 to December 2004, as an engineer, the deputy director of municipal office, the director of the chief engineer office, the assistant to the president and the vice president, successively. Mr. Lin then served in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) as the vice president and president, successively, from January 2005 to December 2011 and was appointed as the vice chairman of the board of directors in December 2011. Mr. Lin graduated from Chongqing Construction Engineering College* (重慶建築工程學院) in Chongqing, the PRC, majoring in environmental engineering in July 1990. Mr. Lin obtained the qualification as the registered consulting engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in August 2008, as the registered public facility engineer (water supply and drainage professional) granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in September 2010, as the senior water supply and drainage engineer granted by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in November 2010, and as the registered urban planner granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in August 2013. Mr. Lin was appointed as the bidding evaluation expert by People's Government of Sichuan Province (四川省人民政府) in June 2015 and as a member of legislative advisory group of People's Congress Standing Committee of Zigong City* (自貢市人大常委會立法諮詢小組) in May 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Cheng Hok Kai, Frederick (鄭學啟先生), aged 53, was appointed as our independent non-executive Director, the chairman of the audit committee (performed his duties since 9 March 2017) and a member of the nomination and remuneration committee taking effect on the Listing Date. He concurrently acted as the company secretary and the managing director of corporate finance and investment in PuraPharm Corporation Ltd. (培力控股有限公司), a company listed on the Stock Exchange (stock code: 1498). Mr. Cheng has extensive experience in business, finance and accounting management. Prior to joining our Group, from 1985 to 1988, Mr. Cheng worked as an audit assistant and senior accountant of Pricewaterhouse (currently known as PricewaterhouseCoopers), an accounting firm in Hong Kong, where he was primarily responsible for audit assignments for various companies. From 1997 to 2004, Mr. Cheng was the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited, a company principally engaged in designing, developing, and marketing semiconductors and storage systems, focused in the storage, communication, and consumer markets, where he was primarily responsible for finance and accounting function for the operation in Asia Pacific and Japan. From 2004 to 2006, he was the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd., a company principally engaged in providing software and hardware design solutions for electronic design automation, where he was primarily responsible for the finance and accounting function of the operation in the Pacific Rim. From 2006 to 2008, he worked as the finance director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., a company principally engaged in providing 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng then joined PuraPharm International (H.K.) Ltd. as chief financial officer in 2010. Mr. Cheng obtained his bachelor's degree in finance and accounting from the University of Salford in the United Kingdom in July 1985, and his master's degree in accounting from the University of New South Wales in Australia in May 1992. Mr. Cheng was admitted as a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 1992 and April 1992, respectively. Mr. Cheng became fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia in March 2013 and January 2004, respectively, Mr. Cheng was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in April 1995 and a member of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) in December 1996. Mr. Cheng became a fellow member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia in June 2012 and November 2013, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

SUPERVISORS

Ms. Qu Mei (屈梅女士), aged 48, joined our Group in May 2007 and served as the chairman of Supervisory Committee and a shareholder representative Supervisor of our Company as at the Latest Practicable Date. Ms. Qu concurrently served as a manager of Party affairs department and a supervisor of Xinglu Investment, a supervisor of Luzhou Xinglu Agriculture Financing Secured Co., Ltd.* (瀘州市興瀘農業融資擔保有限公司), Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘洲市興瀘融資擔保有限公司), Luzhou Huarun Xinglu Gas Co., Ltd.* (瀘州華潤興瀘燃氣有限公司), Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司), Luzhou Traffic Investment Group Co., Ltd.* (瀘州市交通投資集團有限責任公司), Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司) and Luzhou Xinglu Lantian Market Management Co., Ltd.* (瀘州市興瀘藍天市場管理有限公司). Ms. Qu has 15 years of experience of corporate management. Before joining our Group, Ms. Qu served in the auto control department of Southwestern Chemical Research Institute* (西南化工研究院) from July 1989 to March 1998, and then served in Sichuan Luzhou Investment Co., Ltd.* (四川省瀘州投資公司) from June 1998 to July 2001. Ms. Qu then served as the deputy director of general manager office and secretary to the board of Luzhou Infrastructure from July 2001 to March 2006, and was appointed as the manager of human resource department of Xinglu Investment from March 2006 to March 2016. Ms. Qu also served as the manager of audit department of Xinglu Investment from January 2009 to October 2009. Ms. Qu graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) with a bachelor's degree majoring in law in December 2002. Ms. Qu has obtained the human resource management expert granted by Ministry of Labour and Social Security* (中華人民共和國勞動和社會保障部) in June 2006.

Mr. Xu Ke (徐可先生), aged 35, joined our Group in December 2015 and served as a shareholder representative Supervisor as at the Latest Practicable Date. Mr. Xu has served as the deputy manager of administration department responsible for legal affairs in Luzhou Laojiao Industrial Investment Management Co., Ltd.* (瀘州老窖實業投資管理有限公司), a wholly-owned subsidiary of one of our shareholders Luzhou Laojiao, since July 2014. Before joining our Group, Mr. Xu served in People's Court of Jiangyang District, Luzhou City* (瀘州市江陽區人民法院) from September 2000 to March 2012, and as a legal counsel* (法務專員) in Luzhou Alcohol Concentration Development Area Co., Ltd.* (瀘州酒業集中發展區有限公司) from April 2012 to June 2014. Mr. Xu graduated from Peking University* (北京大學) majoring in law (online course) in July 2005.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Ms. Huang Mei (黃梅女士), aged 48, joined our Group in December 1987 and served as an employee representative Supervisor as at the Latest Practicable Date. She concurrently served as the chairman of the Labour Union of our Company and the deputy secretary of the Party Committee since 2002 and 2016, respectively, a supervisor of Beijiao Water since April 2008 and Xinglu Wastewater Treatment since September 2014, the chairman of the board of directors of Naxi Water since April 2013, and a supervisor of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015. Ms. Huang served as a worker in Luzhou Tap Water Nanjiao Plant from December 1987 to February 1991. She served in Luzhou Tap Water as a Labour Union assistant and a vice secretary of Youth League branch from March 1991 to March 1998, as the secretary of Youth League branch from January 1997 to June 2002, as a member of Party Committee from November 1998 to June 2002, and as the vice chairman of the Labour Union from April 1998 to June 2002. From July 2002 to March 2016, she served as a vice secretary of Party Committee of our Company and concurrently served as a deputy general manager of our Company from March 2008 to November 2009 and the head of materials supply department of our Company from December 2014 to September 2015. Ms. Huang graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in law in December 1999.

Ms. Xiang Min (向敏女士), aged 45, joined our Group in September 1989 and served as an employee representative Supervisor of our Company as at the Latest Practicable Date. She has concurrently served as the director of Xinglu Wastewater Treatment since September 2014, the chairman of the board of directors of Sitong Engineering since May 2015, and the director of general manager office of our Company since July 2015. Ms. Xiang has 20 years of experience of human resource management. Ms. Xiang served as a meter reader and a toll collector at the business department of Luzhou City Tap Water Company* (瀘州市自來水公司) from September 1989 to April 1996, as an operator and a chief officer* (主辦) at the labour and capital department of Luzhou Tap Water from May 1996 to May 2002. She then acted as the head of human resource department of our Company from July 2002 to March 2015, as the general manager assistant of our Company from January 2013 to July 2015, and as the head of political and labour department of our Company from July 2013 to December 2013. Ms. Xiang also served as the director of our Company from December 2009 to June 2016 and the supervisor of Luzhou Industrial Investment Group Co., Ltd.* (瀘洲工業投資集團有限公司) since March 2015. Ms. Xiang graduated from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) with a bachelor's degree majoring in economic management in December 1999 and from Southwest Jiaotong University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in June 2006. She obtained the qualification as the human resource economist of intermediate level conferred by Ministry of Personnel* (中華人民共和國人事部) in November 2000 and the qualification of the first class of human resources manager conferred by Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部) in February 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Zhu Yuchuan (朱玉川先生), aged 54, joined our Group in April 1984 and served as an employee representative Supervisor and the head of technology department of our Company as at the Latest Practicable Date. In April 1984, Mr. Zhu started his career in Luzhou Tap Water and served several positions in several plants of Luzhou Tap Water. He served as the vice section chief of business section and deputy manager of urban supply section of our Company from July 1995 to April 2010. He then acted as the manager in Beijiao Water from June 2011 to October 2011, and as the manager in Jiangnan Water from October 2011 to December 2014. Mr. Zhu graduated from Sichuan Province Cadre Correspondence School* (四川省幹部函授學院) majoring in corporate management and economic law in June 2002 and from Sichuan College of Architectural Technology* (四川建築職業技術學院) in Deyang, the PRC, majoring in building construction and management in January 2007. Mr. Zhu obtained the qualification as drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in January 2003.

Mr. Xuan Ming (宣明先生), aged 46, served as an external Supervisor of our Company since the Listing Date. Mr. Xuan concurrently served as the director of Sichuan Mayflower Law Firm* (四川五月花律師事務所). Mr. Xuan has 11 years of experience in legal practice. Mr. Xuan started to act as a lawyer in Sichuan Mayflower Law Firm* (四川五月花律師事務所) from September 2005. Mr. Xuan graduated from Sichuan Normal University* (四川師範大學) in Chengdu, the PRC, with a bachelor's degree majoring in science in July 1993 and from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a master's degree in law in June 2012. Mr. Xuan obtained the certificate of legal professional granted by Ministry of Justice P.R.C* (中華人民共和國司法部) in February 2005.

Mr. Xiong Hua (熊華先生), aged 33, served as an external Supervisor of our Company since the Listing Date. Mr. Xiong concurrently served as the vice director of Sichuan Changxin Accounting Firm Co., Ltd.* (四川長信會計師事務所有限公司) since January 2008. Mr. Xiong has eight years of experience of accounting. He served as a cashier and an accountant in finance department of Luzhou Huitong Department Store Co., Ltd.* (瀘州匯通百貨股份有限公司) from April 2007 to January 2008. Mr. Xiong graduated from Sichuan Management College* (四川管理職業學院) in Chengdu, the PRC, majoring in accounting computerisation in December 2005. Mr. Xiong obtained the certificate of certified public accountant granted by the MoF in October 2008, the qualification of semi-senior accountant granted by Personnel Department of Sichuan Province * (四川省人事廳) in October 2009, the qualification of registered tax agent granted by Sichuan Provincial Human Resources and Social Security Department* (四川省人力資源和社會保障廳) in October 2011, and the certificate of certified public valuer granted by the MoF in December 2011.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

SENIOR MANAGEMENT

Mr. Zhong Peng (鍾鵬先生), aged 41, joined our Group in May 2015 and served as a deputy general manager of our Company as at the Latest Practicable Date. Mr. Zhong is primarily responsible for the management of our quality control system, the production, safety and engineering technology, and in charge of production safety department and technology department of our Company. He concurrently served as the manager of Luzhou Xinglu Water (Group) Crystall Mall Co., Ltd. from May 2015, as the chairman of board of directors of Beijiao Water, Nanjiao Water and Sitong Design from May 2015, June 2015 and November 2015, respectively. Mr. Zhong has six years of experience of corporate management. Before joining our Group, Mr. Zhong served as the director* (廠長) of Panzhihua Xinzhong Titanium Technologies Co., Ltd. Rich-titanium Material Plant* (攀枝花新中鈦科技有限公司富鈦料廠) from October 2010 to January 2014, the deputy general manager and the chief engineer of Chengdu ASTEC GULN Environmental Protection Engineering Co., Ltd.* (成都阿斯特克國龍環保工程有限公司) from January 2014 to April 2015. Mr. Zhong graduated from Pangang Technical School* (攀鋼技工學校) in July 1993 and from Southwestern University of Finance and Economics* (西南財經大學), a junior college, majoring in business administration (online course) in July 2013. Mr. Zhong obtained the qualification as electrical and mechanical engineer granted by Human Resources and Social Security Bureau of Ezhou City* (鄂州市人力資源和社會保障局) in September 2013.

Mr. Wang Minghua (王明華先生), aged 48, joined our Group in July 2015 and served as a deputy general manager of our Company as at the Latest Practicable Date. Mr. Wang is primarily for the management of the logistics department of our Company. Mr. Wang served as a director of Luzhou Infrastructure concurrently. Mr. Wang has 27 years of experience of financial management work. Before joining our Group, Mr. Wang served as an officer in Bureau of Finance Three Investigation Office of Luzhou City* (瀘州市財政局三查辦) from July 1989 to August 1995, the officer of Bureau of Finance Budget Division of Luzhou City* (瀘州市財政局預算科) from September 1995 to November 2000, the deputy director of Bureau of Finance Science and Education Division of Luzhou City* (瀘州市財政局科教文科) from December 2000 to June 2002, and the deputy chief of Bureau of Finance Science and Education Division of Luzhou City* (瀘州市財政局科教文科) from June 2002 to June 2006, the deputy director of General Office of Agricultural Development Leading Group of Luzhou City* (瀘州市農業綜合開發領導小組) from June 2006 to January 2007, the chief of Bureau of Finance Investment Management Division of Luzhou City* (瀘州市財政局投資管理科) from January 2007 to March 2011, and the chief of Bureau of Finance of Naxi district, Luzhou City* (瀘州市納溪區財政局) from March 2011 to March 2013. He then served as the manager of investment department of Xinglu Investment from March 2013 to June 2015 and concurrently as an assistant general manager of Xinglu Investment from May 2013 to May 2015. Mr. Wang graduated from Southwestern Normal University* (西南師範大學) majoring in accounting (correspondence course) in July 1999.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

CHIEF FINANCIAL OFFICER

Mr. Chen Yongzhong (陳永忠先生), aged 43, joined our Group in December 2012 and served as our chief financial officer, secretary to the Board and one of our joint company secretaries as at the Latest Practicable Date. Mr. Chen is primarily responsible for the Group's overall financial management and in charge of financial department of our Company. Mr. Chen also served as the chief financial officer of Xinglu Wastewater Treatment since 3 September 2014. Mr. Chen has over 19 years of experience of accounting and financing. Before joining our Group, Mr. Chen served in teaching position in Luzhou Finance and Economic School* (瀘州市財經學校) from August 1997 to May 2009. Mr. Chen served as a deputy manager of financial department of Xinglu Investment from August 2009 to December 2014. Mr. Chen subsequently joined our Group when he was appointed as the chief financial officer of our Company on 26 December 2012. Mr. Chen graduated from Chengdu Meteorological Institute* (成都氣象學院) in Chengdu, the PRC, with a bachelor's degree majoring in accounting in June 1997. Mr. Chen was accredited as a mid-level accountant by MoF in May 2002, has passed the All Required Subjects of The National Uniform CPA Examination of the PRC in December 2007, obtained the qualification for registered tax agent granted by Sichuan Province Professional Title Reforming Leading Group* (四川省職稱改革工作領導小組) in September 2009 and was registered as a member of Chartered Accountant Association of Sichuan Province* (四川省註冊稅務師協會) in November 2011, and accredited as senior accountant by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in June 2012, successively. Mr. Chen obtained the qualification as senior international finance manager granted by International Financial Management Association in February 2013.

JOINT COMPANY SECRETARIES

Mr. Chen Yongzhong (陳永忠先生), aged 43, has served as one of our joint company secretaries since 5 August 2016. He concurrently served as our chief financial officer and secretary to the Board. For his biographical details, please refer to "– Chief Financial Officer" in this section.

Ms. Ng Wing Shan (吳詠珊女士), has served as one of our joint company secretaries since 25 July 2016. Ms. Ng now serves as the assistant vice president of SW Corporate Services Group Limited, mainly responsible for assisting listed companies in professional company secretarial work. Ms. Ng possesses more than 10 years of professional experience in company secretarial field. Ms. Ng is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administration in the United Kingdom.

DIRECTORS' REPORT

The Board is pleased to present the annual report and the audited financial statements of the Group (the "Financial Statements") for the year ended 31 December 2016 to the Shareholders.

INITIAL PUBLIC OFFERING OF THE COMPANY

The Company was listed on the Stock Exchange as at 31 March 2017, and 214,940,000 H Shares with par value of RMB1.00 each had been issued by the Company at the price of HK$2.30 per Share, with a net proceeds received from the issuance of approximately HK$395.1 million. On 31 March 2017, H Shares of the Company totaled 214,940,000 Shares (including H Shares converted from Domestic Shares and offered by our Selling Shareholders defined in the Prospectus), upon the completion of the IPO. As at the Latest Practicable Date, the Company had issued 859,710,000 Shares in total, of which 644,770,000 were Domestic Shares and 214,940,000 were H Shares.

RIGHT OF PRE-EMPTION

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any requirement on right of pre-emption.

PRINCIPAL BUSINESSES

Our Company is an integrated operator primarily engaged in municipal water supply and drainage service. As of the end of the Reporting Period, the Group was the largest tap water supplier in Luzhou Area with a market share of approximately 83.0% of county-level cities in Luzhou. The Group is the only wastewater treatment service provider in county-level cities of Luzhou Area. We have secured from the relevant local governments the exclusive concession rights to operate tap water supply and wastewater treatment services covering most of Luzhou Area. One of our long-term operational goals is the full integration of municipal water services for the entire Luzhou Area (全域供水), which we believe will further increase operational efficiency and service quality. Towards that end, we have been in collaboration with local governments to systematically construct and extend the tap water supply pipeline network in Luzhou Area. We also collaborate closely with local governments in Luzhou Area to develop urban water supply pipeline network in support of their overall urbanisation plans. While diligently serving public interests, we are able to proactively respond to market demand and generate solid returns for the Shareholders.

RESULTS

The audited results of operations of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 82. The financial position of the Group as at 31 December 2016 is set out in the consolidated statement of financial position on pages 83 to 84. The consolidated cash flow of the Group for the year ended 31 December 2016 is set out in the consolidated statement of cash flows on pages 86 to 87.

Discussion and analysis about the operating performance and significant factors affecting the results of operations and financial position of the Company during the Reporting Period are set out in the chapter headed "Management Discussion and Analysis" of this annual report from page 17 to 31.

DISTRIBUTION AND DIVIDEND

The Board did not recommend the payment of the final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 16 May 2017 to Thursday, 15 June 2017 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the Annual General Meeting is Tuesday, 16 May 2017. In order to be qualified to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shares), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shares) no later than 4:30 p.m. on Monday, 15 May 2017.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the Reporting Period are set out in the Note 15 to the consolidated Financial Statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the changes in the Company's reserves during the Reporting Period are set out in the consolidated statement of changes in equity, of which the reserves distributable to the Shareholders shall be the lesser of the undistributed profits of the Company determined in accordance with the Chinese Accounting Standards and IFRSs. The Company's profit available for distribution to the Shareholders as at 31 December 2016 was retained profit of approximately RMB49.7 million (determined in accordance with applicable Chinese Accounting Standards).

According to the Articles of Association, the Company's profit after payment of income tax shall be distributed in the following order:

(i) make up for the losses of the previous year;

(ii) make appropriations to statutory common reserve;

(iii) make appropriations to its discretionary reserve fund in accordance with the Company's development needs;

(iv) pay dividends to Shareholders.

DIRECTORS' REPORT (Continued)

DONATIONS

During the Reporting Period, the Group's external donation was RBM146,000.

BANK BORROWINGS AND OTHER BORROWINGS

Details of the Group's bank borrowings and other borrowings at the end of the Reporting Period are set out in the Note 26 to the Financial Statements of this annual report.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth the status of Directors, Supervisors and senior management of the Company as at the date of this annual report:

Directors

Name	Position in our Company	Appointment date of current term
Mr. Zhang Qi	Executive Director & Chairman of the Board	December 2015
Mr. Wang Junhua	Executive Director & Deputy general manager	December 2016
Mr. Liao Xingyue	Executive Director & General manager	December 2016
Mr. Chen Bing	Non-executive Director	December 2016
Mr. Yang Ronggui	Non-executive Director	December 2016
Ms. Xu Yan	Non-executive Director	December 2016
Mr. Gu Ming'an	Independent non-executive Director	June 2016(1)
Mr. Lin Bing	Independent non-executive Director	June 2016(1)
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	June 2016(1)

Supervisors

Name	Position in our Company	Appointment date of current term
Ms. Qu Mei	Chairperson of the Supervisory Committee	December 2015
Mr. Xu Ke	Supervisor	December 2015
Ms. Huang Mei	Supervisor	June 2016
Ms. Xiang Min	Supervisor	July 2016
Mr. Zhu Yuchuan	Supervisor	December 2015
Mr. Xuan Ming	Supervisor	June 2016(1)
Mr. Xiong Hua	Supervisor	June 2016(1)

Senior Management

Name	Position in our Company	Appointment date of current term
Mr. Zhong Peng	Deputy general manager	December 2015
Mr. Wang Minghua	Deputy general manager	December 2015
Mr. Chen Yongzhong	Chief financial officer	December 2015
	Company secretary	July 2016
	Secretary to the Board	May 2016

Note:

(1) Effective from the Listing Date. Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an, members of Audit Committee, started to perform duties on 9 March 2017.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out in the section headed "Directors, Supervisors and Senior Management" on pages 32 to 43 of this annual report. There are no connections between the Directors, Supervisors and senior management of the Company, including financial, business, family or other material connections as defined in the Corporate Governance Code in Appendix 14 to the Listing Rules.

SERVICE CONTRACT OF THE DIRECTORS AND SUPERVISORS

The Company has entered into a service contract with each of the Directors and Supervisors containing terms relating to, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration. The service contracts may be renewed in accordance with the Articles of Association and applicable rules.

None of the Directors or Supervisors has entered into any service contract with the Company which does not expire or is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DETERMINATION OF AND BASIS FOR DETERMINATION OF REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the Directors, Supervisors and senior management is subject to the recommendations of the Nomination and Remuneration Committee and determination by the Board. The Nomination and Remuneration Committee is responsible for recommending for the remuneration of the Directors, Supervisors and senior management to the Board with reference to, among other factors, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company.

DIRECTORS' REPORT (Continued)

We offer our executive Directors, employee representative Supervisors and senior management members, who are also employees of our Company, emolument in the form of fees, salaries, wages, allowances, pension, discretionary bonus and other welfares. Our independent non-executive Directors and external Supervisors receive fees from our Company and our non-executive Directors and Shareholder representative Supervisors also receive reimbursements from our Company for expenses which are necessary and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company. We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the remuneration of the Directors and Supervisors of the Company are set out in Note 12 to the Financial Statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, AGREEMENTS OR CONTRACTS

During the Reporting Period, there were no significant transactions, arrangements or contracts of significance subsisting in relation to the Group's business to which the Company or any of its subsidiaries was a party, directly or indirectly, and in which any Director or Supervisor had a material interest.

MATERIAL CONTRACTS

Save as disclosed in this annual report and the Prospectus, at no time during the Reporting Period had the Company or any of its subsidiaries entered into any material contract with any Controlling Shareholder or any of its subsidiaries, nor had any material contract been entered into for the services provided by any Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period and for the period ended on the Listing Date, to the best knowledge of the Board, none of the Directors and Supervisors and their respective associates has any business or interest that competes or may compete with the business of the Group or have or may have any other conflict of interest with the Group.

EQUITY-LINKED AGREEMENTS

Save the IPO, the Company did not enter into any equity-linked agreements during the Reporting Period and as of the Latest Practicable Date.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

Since the Company was not listed on the Stock Exchange at the end of the Reporting Period, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors, Supervisors and chief executive of the Company during the Reporting Period.

As at the Listing Date, none of our Directors, Supervisors and chief executive has any interests and/or short positions in the Shares and (in respect of the amount of positions held under equity derivatives) underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

Since the Company was not yet listed on the Stock Exchange at the end of the Reporting Period, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO shall not be applicable to the Company during the Reporting Period.

To the best knowledge of the Company, on the Listing Date, the following persons (excluding our Directors, Supervisors and chief executives, whose interests being disclosed in the above section headed "Interests and Short Positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures") had interests and/or short positions in the Shares and (in respect of the amount of positions held under equity derivatives) underlying Shares and/or in debentures of the Company which were required to be notified to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section:

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares (1)	Percentage in class Shares issued	Percentage in total Shares issued
Xinglu Investment(2)	Beneficial owner	Domestic Shares	511,654,127 (L)	79.35%	59.52%
	Interest in a controlled corporation	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Luzhou Laojiao	Beneficial owner	Domestic Shares	70,406,310 (L)	10.92%	8.19%
Luzhou Infrastructure(2)	Beneficial owner	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited(3)	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited(3)	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%

DIRECTORS' REPORT (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares [1]	Percentage in class Shares issued	Percentage in total Shares issued
Beijing Enterprises Group (BVI) Company Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd[4][7]	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%
Sichuan Development Holding Co., Ltd[4]	Interest in a controlled corporation	H Shares	19,247,000 (L)	8.95%	2.24%
Suntront Tech Co., Ltd[5][7]	Beneficial owner	H Shares	16,884,000 (L)	7.85%	1.96%
Fei Zhanbo (費戰波)[5]	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.85%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產開發有限公司)[6][7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司)[6]	Interest in a controlled corporation	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬)[7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅)[7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬)[7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd[7]	Trustee	H Shares	94,671,000 (L)	44.04%	11.00%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	19,247,000 (L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	16,884,000 (L)	7.85%	1.96%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Bank of Communications Co., Ltd[8]	Interest in a controlled corporation	H Shares	17,169,000 (L) 10,747,000 (S)	7.99% 5.00%	2.00% 1.25%
Bank of Communications (Nominee) Company Limited[8]	Interest in a controlled corporation	H Shares	17,169,000 (L) 10,747,000 (S)	7.99% 5.00%	2.00% 1.25%
BOCOM International Holdings Company Limited[8]	Interest in a controlled corporation	H Shares	17,169,000 (L) 10,747,000 (S)	7.99% 5.00%	2.00% 1.25%
BOCOM International Securities Limited[8]	Beneficial owner	H Shares	17,169,000 (L) 10,747,000 (S)	7.99% 5.00%	2.00% 1.25%

Notes:

(1) As at the Listing Date, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position and (S) represents short position.

(2) Xinglu Investment has 79.13% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed as interested in the Domestic Shares held by Luzhou Infrastructure.

(3) Beijing Enterprises Group (BVI) Company Limited, 100% owned by Beijing Enterprises Group Company Limited, has 41.06% interests in Beijing Enterprises Holdings Limited which owns 100% interests of Beijing Enterprises Environmental Construction Limited which in turn has 43.76% interests in Beijing Enterprises Water Group Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed as interested in H Shares held by Beijing Enterprises Water Group Limited.

(4) Sichuan Development Holding Co., Ltd has 100% interests in Sichuan Sans Venture Capital Co., Ltd. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd is deemed as interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.

(5) Fei Zhanbo has 35.52% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Fei Zhanbo is deemed as interested in H Shares held by Suntront Tech Co., Ltd.

(6) Luzhou Xiangyang Enterprises Group Limited has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd. Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed as interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產發展有限公司).

(7) Sichuan Sans Venture Capital Co., Ltd holds a total of 19,247,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Suntront Tech Co., Ltd holds a total of 16,884,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Luzhou Xiangyang Real Estate Development Co., Ltd holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; and Yang Bin holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd, acting as the trustee for the above-mentioned trusts, is deemed as interested in the aggregate 94,671,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' REPORT (Continued)

(8) Bank of Communications (Nominee) Company Limited, 100% owned by Bank of Communications Co., Ltd, has 100% interests in BOCOM International Holdings Company Limited, which in turn has 100% interests in BOCOM International Securities Limited. Therefore, pursuant to the SFO, all of the Bank of Communications Co., Ltd., Bank of Communications (Nominee) Company Limited and BOCOM International Holdings Company Limited are deemed as interested in the H Shares held by BOCOM International Securities Limited.

Save as disclosed above, to the best knowledge of the Company, on the Listing Date, no person (other than the Directors, Supervisors and chief executives of the Company) informed the Company that they had interests and/or short positions in the Shares and (in respect of the amount of positions held under equity derivatives) underlying Shares and/or in debentures of the Company which were required to be notified to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section.

MANAGEMENT CONTRACT

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Reporting Period.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group had conducted a number of exempted continuing connected transactions. It includes that Our Group (i) has provided tap water supply services to our Controlling Shareholder and its subsidiaries in our ordinary and usual course of business, (ii) has provided installation and maintenance services in our ordinary and usual course of business to Luzhou Xinglu Jutai Real Estate Co., Ltd., (iii) has occupied certain properties in Luzhou City, Sichuan Province, the PRC owned by Luzhou City Xinglu Assets Management Co., Ltd., and (iv) has received property management services from Luzhou Xinglu Property Management Co., Ltd.

DIRECTORS' REPORT (Continued)

The Company has obtained approval from the Stock Exchange in respect of the annual cap of non-exempt continuing connected transactions upon the IPO and such transactions were exempted from announcement and the independent Shareholders' approval requirement. The table below shows the actual transaction value during the Reporting Period and annual caps of such continuing connected transactions for the year ended 31 December 2017:

Name of the agreement	Date and term	Connected Persons	Nature and description of the transaction	Basis of pricing	Actual transaction amount in 2016 *RMB'000*	Estimated transaction amount in 2017 *RMB'000*
Property Management Agreement	from 1 January 2016 to 31 December 2017	Luzhou Xinglu Property Management Co., Ltd.	Seven wastewater treatment plants to provide property management services	The fixed amount of property management fees for any given year were determined based on (i) the service scope; (ii) the area covered; (iii) number of staff necessary to provide services; and (iv) wages of the staff. The property management fees were determined on arm's length negotiation, by reference to prevailing market rates and on normal commercial terms.	3,215	3,200

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions were:

(1) entered into in the ordinary business of the Group;

(2) carried out in normal commercial terms or better;

(3) carried out according to the relevant transaction agreements, the terms of which are fair and reasonable, and in the interests of the Shareholders as a whole.

Save as disclosed above, other related party transactions disclosed in note 38 to the financial statements do not constitute the "connected transaction" or "continuing connected transaction" defined in Chapter 14A of the Listing Rules. The Company has complied with relevant disclosure requirements set forth in Chapter 14A of the Listing Rules.

The Directors confirmed that the Company has complied with the requirements under Chapter 14A of the Listing Rules with regard to the above continuing connected transactions.

DIRECTORS' REPORT (Continued)

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Controlling Shareholder signed non-competition agreements (the "Non-competition Agreements") on 10 March 2017, in favour of the Company. Pursuant to the Non-competition Agreement, our Controlling Shareholder has irrevocably undertaken to our Company that it would not, and would procure that its controlled entities would not, during the restricted period set out below, directly or indirectly, either on its own account or in conjunction with any person, firm or company, carry on, participate, be interested, engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "Non-competition Business"). In addition, our Controlling Shareholder will exercise its voting rights in the relevant board meetings and shareholders' meetings and use its best efforts to procure its associated entities to comply with such requirements. Under the Non-competition Agreement, the controlled entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder: (i) can exercise or control the exercise of more than 50% of the equity interest, issued share capital or the voting power at general meetings (if applicable); (ii) is entitled to more than 50% of the after-tax profits; (iii) can control the composition of a majority of the board of directors; or (iv) takes actual control through agreements or any other arrangements. Associated entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder has interest and which are not controlled entities. Pursuant to the Non-competition Agreement, the Non-competition Business refers to all business lines of our Group operated currently and to be operated from time to time in the future, which includes but not limited to tap water supply and wastewater treatment services.

The "restricted period" stated in the Non-competition Agreement refers to the period during which our Controlling Shareholder undertakes not to compete with our Group in accordance with the provisions of the Non-competition Agreement until the occurrence of the earliest of: (i) the H Shares of our Company ceasing to be listed on the Main Board of the Stock Exchange; and (ii) in respect of the Controlling Shareholder, the Controlling Shareholder and its associates (excluding our Group) ceasing to be entitled to exercise or control the exercise of 30% or more in aggregate of the voting right at general meetings of our Company and having no control over the majority of our Board, or ceasing to be regarded as a controlling shareholder pursuant to the applicable laws and regulations, or ceasing to hold, directly or indirectly, any equity interest in our Company.

For details of the above Non-competition Agreement, please refer to the section headed "Relationship with our Controlling Shareholder" in the Prospectus.

The independent non-executive Directors have reviewed the information provided by the Controlling Shareholder regarding compliance with the Non-competition Agreement and determined that the Controlling Shareholder had fully complied with and were not in breach of the Non-competition Agreement until the Latest Practicable Date.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the total amount of procurement from the five largest suppliers of the Group accounted for 65.3% of the total amount of procurement for the year ended 31 December 2016. The purchase from the largest supplier accounted for 32.7% of the total amount of procurement for the year ended 31 December 2016.

During the Reporting Period, the total amount of sales to the five largest customers of the Group accounted for 62.5% of the total amount of revenue for the year ended 31 December 2016, and the total amount of sales to the largest customer accounted for 32.8% of the total amount of revenue of the Group for the year ended 31 December 2016.

The Directors and the Supervisors, and their respective close associates, or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company) do not hold any interest in the top five customers and top five suppliers of the Group.

RETIREMENT AND EMPLOYEE BENEFITS PLAN

Please refer to the Note 4 and 12 to the Financial Statements for detailed information on the retirement and employee benefits plan of the Company.

BUSINESS REVIEW

The Company's business review and the discussion and analysis of the Group's performance during the Reporting Period and material factors relating to its results and financial conditions are respectively set out in the chapter headed "General Manager's Report" on pages 10 to 16 and the chapter headed "Management Discussion and Analysis" on pages 17 to 31 in this annual report. Such discussions constitute an integral part of this annual report.

ENVIRONMENTAL POLICY

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. The main environmental hazard involved in our operations is the sludge resulted from our wastewater treatment. The sludge contained mainly mud, sand and other micro-scale deposits in wastewater. We deliver or engage third party to deliver the sludge collected in our wastewater treatment to landfills designated by the relevant government authorities. During the Reporting Period, we did not incur any significant cost in relation to environmental protection or have any material environment-related incident, and we had not been penalised or subject to investigation by competent government authority for environment-related violations.

DIRECTORS' REPORT (Continued)

COMPLIANCE WITH LAWS AND REGULATIONS

The Board believes the compliance with laws and regulations as the cornerstone of a business and attaches considerable importance to it. To the best knowledge of the Board, during the Reporting Period, the Company has complied with the relevant laws and regulations that have a significant impact on the Company. Furthermore, as the H Shares of the Company are listed on the Stock Exchange, the Company shall be bound by the Listing Rules and the SFO.

KEY RELATIONSHIPS

Employees

The Group attaches great importance to the development of career paths of the staffs and carries out the Evaluation and Review Plan Based on the Comprehensive Performance (全面表現評核計劃) for all staff to reward and praise outstanding employees and provide more comprehensive career training and development plan for all employees.

Customers and suppliers

The business of the Group was established based on the customer-oriented culture and focused on the establishment of relationship with governments in counties and districts. It's important to keep good relationships with customers and suppliers for the Group's long term development. Accordingly, the Group has been dedicating to provide consistent and high-quality and high-standard services to customers.

Shareholders

One of the objectives of the Group is to enhance the enterprise value for Shareholders, thus the Group will continuously improve the business development and reach sustainable profit growth to reward the Shareholders.

EMPLOYEES REMUNERATION AND POLICY

At the end of the Reporting Period, the Company had 787 employees in total. During the Reporting Period, the total staff cost of the Company is RMB95.8 million.

We maintain a number of social security funds for our employees, including funds for basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity leave insurance and housing provident fund. As of the Latest Practicable Date, we have been in compliance with relevant applicable social insurance and housing provident fund laws and regulations of the PRC. No material claims from our employees or third parties and no penalties from relevant government authority had been filed against us as of the Latest Practicable Date.

Compensation for our employees includes basic wages, bonuses and other staff benefits. We also provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labour law, Labour Contract Law of the People's Republic of China and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are paid by us. We review the performance of our employees annually, the results of which are applied in his or her monthly and annual bonus review and promotion appraisal. We also provide on-job training to our employees from time to time. We hold regular and ad-hoc on-job training for our employees. Our human resource department manages and oversees such trainings and produces annual report which summarise results of employee training of the previous year and plans for the current year. Such annual report is submitted for the management to review and approve.

RISKS AND UNCERTAINTIES

The Group's business, future results of operations and prospects could be materially and adversely affected by certain risks and uncertainties. Please refer to the chapter headed "General Manager's Report" on pages 10 to 16 of this annual report for the current and main risks and uncertainties of the Group.

PERMITTED INDEMNITY PROVISIONS

From the Listing Date to the Latest Practicable Date, the Company has purchased and maintained a collective liability insurance covering, but not limited to, all Directors.

PURCHASE, DISPOSAL OF AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries have not purchased, disposed of and redeemed any listed securities of the Company or any of its subsidiaries from the Listing Date to the Latest Practicable Date.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

At no time from the Listing Date to the Latest Practicable Date were rights to acquire benefits by means of the acquisition of shares or bonds of the Company granted to any Director and Supervisor or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' REPORT (Continued)

BOND ISSUANCE

During the Reporting Period and as of the Latest Practicable Date, the Company did not issue debentures.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the factors leading to the success of the Company and balancing the interests of shareholders, customers and employees.

Since the Company were not listed on the Stock Exchange at the end of the Reporting Period, the Corporate Governance Code was not applicable to us during the Reporting Period. Corporate Governance Code has been applied to the Company since the Listing Date. The Company and its subsidiaries are committed to maintaining a high standard of corporate governance in order to protect the interests of shareholders and enhance corporate value and accountability. Since the Listing Date to the Latest Practicable Date, the Company has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules and has adopted the overwhelming majority of the proposed best practices. Details of the corporate governance practice of the Company are set out in the "Corporate Governance Report" on pages 63 to 76 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the prescribed minimum percentage of public float under the Listing Rules as of the Latest Practicable Date.

USAGE OF PROCEEDS FROM THE IPO

The proceeds from the IPO of the Company will be used, among other things, to expand the assets portfolio of the Group so as to support the sustainable growth of the Company's businesses, which was in line with the usage and purposes disclosed in the Prospectus.

As of the Latest Practicable Date, the proceeds from the IPO has not yet been used.

SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration and the Directors are not aware of any legal proceedings or claims of material importance pending or threatened against the Group at the end of the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the Reporting Period of the Company are set out in the chapter headed "Management Discussion and Analysis" on pages 17 to 31 of this annual report.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results and the Financial Statements of the Company for the year ended 31 December 2016.

AUDITOR

Deloitte Touche Tohmatsu was appointed as auditor of the Company for the consolidated financial statements prepared in accordance with IFRSs for the year ended 31 December 2016. The Company's consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRSs have been audited by Deloitte Touche Tohmatsu. The Company has retained the services of Deloitte Touche Tohmatsu since 2016.

A resolution to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company for the year of 2017 will be proposed at the AGM.

FINANCIAL SUMMARY

Results of operation and the position of assets and liabilities of the Group for the last four financial years is set out on pages 6 to 7 in this annual report.

Luzhou Xinglu Water (Group) Co., Ltd.
Zhang Qi
Chairman

Luzhou, the PRC
24 April 2017

SUPERVISORY COMMITTEE'S REPORT

In 2016, all members of the Supervisory Committee of the Company performed their duties diligently and exercised their functions legally and independently to conduct supervision on corporation operation plans, investment plans, production and operation conditions, financial position and the performance of duties of Directors and senior management in accordance with the requirements of the Company Law, the Articles of Association and the Rules of Procedure of the Supervisory Committee, which facilitated the standard operation and healthy development of the Company.

I. WORK OF THE SUPERVISORY COMMITTEE

The work of the Supervisory Committee mainly focused on the following aspects:

(1) Supervising the operating activities, monitoring the legal compliance of the Company's operations as well as the establishment and effectiveness of the internal control system and protecting the interests of the Company and all the Shareholders.

(2) Supervising the financial operations of the Company by inquiring upon and reviewing the financial reports on a regular basis.

(3) The members of the Supervisory Committee observed the Board meetings and important economic work meetings of the Company to understand directly and indirectly the decision-making process, investment development and the effect brought by the implementation of the resolutions of the Company, and gave their opinions and proposals whenever appropriate to make each decision-making process of the Company legal, protect the interest of the Shareholders and prevent assets loss of the Company.

(4) Monitoring the due diligence of the Directors and senior management to prevent the occurrence of behaviors damaging the interest and image of the Company.

II. BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS OF THE COMPANY IN 2016

(1) Evaluation on the work of the Board

The year 2016 was a key year for the Company to carry out stock reform in preparation for listing and seek development through transformation. Aiming at protecting the interests of the Company and the Shareholders in practice, the Supervisory Committee performed its supervisory duties diligently. The Supervisory Committee observed the annual Board meeting for 2016 and confirmed the contents of the meetings convened by way of communication. The Supervisory Committee considers that, the Board and each Director have performed their respective duties prescribed by the law and the Articles of Association, implemented the resolutions of the general meetings conscientiously, made a series of major decisions such as stock reform for listing and project construction with a clear mind and had made great achievements therefrom, seized the correct development direction of the Company and complied with various requirements, and that up to now, no behavior has been found that may damage the interests of the Company and the Shareholders.

(2) Evaluation on the work of the operation team

The Supervisory Committee conducted supervision on the production and operation activities of the Company during its term of office, and considers that, the operation team of the Company has diligently performed its duties, executed all the resolutions of the Board conscientiously, and had no irregularity in the course of operation. The year 2016 marked the first year of the 13th Five-Year Plan period, during which, the operation team of the Company, under the correct leadership of the Board, focused closely on the targets set by Luzhou SASAC and Xinglu Investment, centered on core work of "safe water supply and high-quality service" and deepened the internal reform by virtue of stock reform for listing as well as potential exploration and efficiency enhancement to overcome all the difficulties in its way and forge ahead vigorously, and accomplished the targets for 2016 with even better results, making 2016 a year witnessing the Company's fruitful achievements in production and operation and basic management, and reflecting that the corporate management is entering into a healthy and orderly virtuous cycle.

III. SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE FOLLOWING MATTERS OF THE COMPANY IN 2016

(1) Legal compliance of the Company's operations

In 2016, the Supervisory Committee conducted supervision on the procedures for convening and the resolutions of the Board meetings, and the implementation by the Board of the resolutions at the general meetings, the discharge of duties by the senior management, and the establishment, improvement and implementation of the management system of the Company through reviewing the accounting statements and implementing day-to-day supervision.

The Supervisory Committee considers that the Company is able to establish a sound corporate governance structure in accordance with the requirements of relevant PRC laws, regulations and the Articles of Association, and operate on a standard basis pursuant to the provisions of the Company Law and the Articles of Association. The Board has been working with due diligence, and has been making business decisions in compliance with relevant requirements of the laws, regulations and the Articles of Association. The Company has internally established a series of comparatively complete, rigorous and scientific decision-making procedures and management systems step by step. When performing their duties, the Directors, general manager and other senior management insist on legal operation and governance of the Company, and have played a leading role in complying with and maintaining the internal management system, and are dedicated to performing their respective duties and have well performed their obligation for honesty and diligence.

SUPERVISORY COMMITTEE'S REPORT (Continued)

(2) Production, operation and management

With respect to the management, the Supervisory Committee further amended and improved various rules and regulations, and focused on strengthening the construction of the internal control system based on the opinions and advices of intermediaries on the internal control and management system, and improved the standard of the legal management of the Company.

(3) Financial execution

Through reviewing, the Supervisory Committee considers that the Company has established a financial management system, and could generally comply with financial regulations and financial accounting system, but shall further strengthen its financial management and system construction.

In the year ahead, the Supervisory Committee of the Company will continue to perform its duties and functions to strengthen self-building, strengthen the supervision on the major decision-making procedures of the Company and the implementation of the resolutions of the general meetings to protecting the interests of the Shareholders, and keep improving its working quality and effect and duly perform its supervisory function. Meanwhile, the Supervisory Committee hopes that the Board and operation team of the Company can place greater emphasis on the building of a clean CPC environment, as well as the safety, environmental protection and occupational health of the staff, and adhere to the scientific outlook on development of people orientation, comprehensiveness, coordination and sustainability, while focusing on the production and development.

Qu Mei
Chairperson of the Supervisory Committee

Sichuan, China
24 April 2017

CORPORATE GOVERNANCE REPORT

The H Shares of the Company have been listed on the Stock Exchange since 31 March 2017. As the Company was not listed at the end of the Reporting Period, the Corporate Governance Code did not apply to the Company during the Reporting Period. The Corporate Governance Code has been applicable to the Company since the Listing Date.

The Group is committed to maintaining a high level of corporate governance as a way to enhance Shareholder's value and protect Shareholders' interests. The Company's corporate governance principles attach importance to the excellent quality of the Board of Directors, effective risk management and internal control and accountability towards Shareholders. The corporate governance practices adopted by the Company are summarized as follows:

CHANGES IN SHARE CAPITAL DURING THE REPORTING PERIOD AND SUBSTANTIAL SHAREHOLDERS

On 11 May 2016, after the registration with Luzhoushi Administration for Industry & Commerce, the registered capital of the Company was increased from approximately RMB600 million to approximately RMB664.31 million.

Details of the Shareholders as at the end of the Reporting Period are as follows:

			As at 31 December 2016	
Name of Shareholder	**Capacity**	**Class of Shares**	**Number of Shares (10,000 Shares)**	**Percentage of total Shares in issue**
Xinglu Investment	Beneficial owner	Domestic Shares	52,716	79.35%
Luzhou Laojiao	Beneficial owner	Domestic Shares	7,254	10.92%
Luzhou Infrastructure	Beneficial owner	Domestic Shares	6,461	9.73%
			66,431	100%

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high level of corporate governance in order to safeguard the interests of Shareholders and enhance corporate value. The Board believes that good corporate governance is one of the factors that lead the Company to success and balance the interests of Shareholders, customers and employees.

From the Listing Date to the Latest Practicable Date, the Company has been in compliance with all the code provisions contained in the Corporate Governance Code and has adopted the overwhelming majority of the best practices recommended.

CORPORATE GOVERNANCE REPORT (Continued)

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct regarding our Directors and Supervisors' securities transactions. As the Company was not listed on the Stock Exchange at the end of the Reporting Period, the provisions of the Listing Rules relating to the directors' and supervisors' compliance with the Model Code did not apply to the Company during the Reporting Period. The Model Code has been applied to the Company since the Listing Date. The Company has made specific inquiries to all Directors and Supervisors, and all Directors and Supervisors have confirmed that they have complied fully with the requirements and standards set out in the Model Code from the Listing Date to the Latest Practicable Date.

BOARD OF DIRECTORS

Composition of the Board of Directors

Name of Director	Title	Date of appointment for the current term
Mr. Zhang Qi	Executive Director & Chairman of the Board	December 2015
Mr. Liao Xingyue	Executive Director & General Manager	December 2015
Mr. Wang Junhua	Executive Director & Deputy General Manager	December 2015
Mr. Chen Bing	Non-executive Director	December 2015
Mr. Yang Ronggui	Non-executive Director	December 2015
Ms. Xu Yan	Non-executive Director	December 2015
Mr. Gu Ming'an	Independent Non-executive Director	June 2016(1)
Mr. Lin Bing	Independent Non-executive Director	June 2016(1)
Mr. Cheng Hok Kai, Frederick	Independent Non-executive Director	June 2016(1)

Note:

(1) Effective from the Listing Date. Mr. Cheng Hok Kai, Frederick, and Mr. Gu Ming'an, members of Audit Committee, started to perform their duties on 9 March 2017.

As currently known to the Company, there is no financial, business, family or other significant relationship among the Directors, especially between the Chairman and the general manager. The roles of the chairman and the general manager are separated and assumed by Mr. Zhang Qi and Mr. Liao Xingyue, respectively. For details, please refer to the section headed "Chairman and General Manager" below.

The Directors' biographical details are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

The Company has entered into a service contract with each of the Directors containing provisions relating to, among other things, compliance with relevant laws and regulations, the Articles of Association and relevant arbitration provisions. In accordance with the Articles of Association, the term of the office of each Director (including non-executive Directors and independent non-executive Directors) is three years from the date of their appointment.

From the Listing Date to the Latest Practicable Date, the Board has been in compliance with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing at least one third of the Board) with at least one of the independent non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received the letter of confirmation from each independent non-executive Director on their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules.

All Directors (including non-executive Directors and independent non-executive Directors) have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board, thus enabling the Board to operate efficiently and effectively.

DUTIES OF THE BOARD OF DIRECTORS

The basic responsibilities of the Board are to exercise its best judgment and to act in the best interests of the Company and its Shareholders. The Board, while operating in an efficient and responsible manner, oversees management's efforts to promote the Group's success. The Board also formulates the Company's overall business strategies and monitors the management's implementation of these strategies.

By discharging its responsibilities, the Board has defined the business and governance issues for which it needs to be responsible, and these matters reserved for the Board have been separately defined, and are reviewed periodically, to ensure that the Company maintains the proper level of corporate governance and to ensure they are up to date. In this regard, the Board discharges, among others, the following duties:

(1) to convene general meetings of Shareholders and report on its work to the general meetings;

(2) to implement the resolutions made at the general meetings;

(3) to decide on the business plans and investment and financing schemes of the Company;

(4) to formulate the annual financial budget plan and final accounting plan of the Company;

(5) to formulate the Company's profit distribution plan and the plan to make up the loss;

CORPORATE GOVERNANCE REPORT (Continued)

(6) to formulate plans for the Company to increase or decrease the registered capital and issue bonds;

(7) to formulate plans for the Company to issue other securities and for listing;

(8) to draw up plans for the merger, division and dissolution of the Company;

(9) to draw up plans to change the form of the Company;

(10) to draw up plans for the Company to make material acquisitions and repurchase shares of the Company;

(11) to decide on the matters such as external investment, acquisition and sale of assets, asset collateral, external guarantee, entrusted wealth management and related party transactions, except the matters to be decided on by the general meetings;

(12) to formulate amendments to the Articles of Association;

(13) to decide on the appointment or dismissal of the general manager of the Company and the secretary to the Board; appointment or dismissal of the deputy general manager, chief financial officer and other senior management personnel of the Company according to the nomination of the general manager and the determination of their remuneration and rewards and punishments;

(14) to determine the establishment of the internal management organs of the Company;

(15) to formulate the basic management system of the Company;

(16) to manage the disclosure of corporate information;

(17) to propose to the general meeting to hire or replace the accounting firm responsible for the Company's audit;

(18) to listen to the report of the general manager on his/her work and review his/her work; and

(19) other functions required by the law and the Articles of Association and granted by the general meetings.

The Board has delegated its daily business and operating duties to the senior management team of the Company. Main administrators of such team are the general manager and deputy general manager. The senior management team holds meeting on a regular basis or from time to time if it needs to formulate policies and make recommendations to the Board. The senior management team administrates, implements, interprets and supervises the compliance with the internal rules and operating procedures of the Company and its subsidiaries and conducts regular reviews over and proposes and makes appropriate amendments to such rules and procedures. The senior management team reports regularly to the Board and maintains communication with the Board if necessary.

CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

The Board is responsible for formulating corporate governance policies and fulfilling corporate governance obligations, which include, among others:

(1) to develop and review the Company's corporate governance system and practices and to make recommendations accordingly;

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;

(4) to review and supervise the compliance of the Directors and employees of the Company and its subsidiaries with the required standards as set out in the Model Code; and

(5) to review the compliance with the Corporate Governance Code of the Company and disclose in the corporate governance report prepared in accordance with requirements of the Listing Rules.

OPERATION OF THE BOARD

Board meetings are divided into regular meetings and extraordinary meetings. The Board shall hold at least two regular meetings in each of the first and second half of each year. The meeting shall be convened by the Chairman of the Board. According to Articles of Association, Shareholders representing more than one tenth of the voting rights, the Supervisory Committee, the Chairman of the Board, more than one third of the Directors, more than two independent non-executive Directors or the general manager propose to convene an extraordinary meeting of the Board, the Chairman of the Board shall convene the Board meeting within 10 days after receiving the proposal.

The Board holds regular meetings and extraordinary meetings. The office of the Board shall, fourteen days prior to the regular meeting and five days before the extraordinary meeting, send the written notice on the meeting sealed by the office of the Board to all Directors, Supervisors, the general manager and the secretary to the Board by hand, by mail or by fax. If the notice is sent by non-direct means, a confirmation should be obtained by telephone and be recorded accordingly. If an interim meeting of the Board needs to be held as soon as possible due to urgent circumstances, a meeting notice may be given at any time by telephone or other oral method, provided that the convener gives an explanation thereof at the meeting and the same is included in the meeting minutes.

CORPORATE GOVERNANCE REPORT (Continued)

PROVISION AND USE OF INFORMATION ABOUT THE BOARD MEETING

The agenda of the regular meeting of the Board and the relevant meeting documents shall be sent to all Directors three days before the date of the meeting so that the Directors can make a decision in the light of the relevant information. The information provided by the management shall be complete and reliable. The Directors may make further inquiries if needed, and the Board and individual Directors shall have independent access to the senior management. All Directors have the right to access the Board meeting documents and related information. A response to the questions raised by the Directors must be made as quick and comprehensive as possible.

NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

The Company has developed formal and transparent procedures for the addition of new Directors to the Board. Nominations for new Directors shall be considered by the Nomination and Remuneration Committee first and then recommended to the Board for consideration. All new nominated Directors are subject to approval by the Shareholders at the general meeting of Shareholders. The dismissal of the Directors shall also be approved by the Shareholders at the general meeting of Shareholders.

DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND GENERAL MEETINGS

During the Reporting Period, the Company held 10 Board meetings, where the Board considered and approved 43 major proposals, including: proposal on the plan for Xinglu Water to increase the registered capital and shares; proposal on the physical investment in the Beijiao Water; proposal on the profit distribution plan of the parent company for 2015; proposal on the Company's public offering of shares and listing abroad; and proposal on the consideration of the applicable articles of association (draft) after the Company's public offering of shares and listing abroad.

All Directors have performed their duties properly and attended the Board meetings in person or by proxy. They made informed decisions to protect the interests of the Company and its Shareholders as a whole. The attendance of each Director at such meetings was set out as follows:

Name of Directors	Title	Number of meetings attended/held
Mr. Zhang Qi	Executive Director & Chairman of the Board	10/10
Mr. Liao Xingyue	Executive Director & General Manager	10/10
Mr. Wang Junhua	Executive Director & Deputy General Manager	10/10
Mr. Chen Bing	Non-executive Director	10/10
Mr. Yang Ronggui	Non-executive Director	10/10
Ms. Xu Yan	Non-executive Director	10/10
Mr. Gu Ming'an	Independent Non-executive Director	0/0(1)
Mr. Lin Bing	Independent Non-executive Director	0/0(1)
Mr. Cheng Hok Kai, Frederick	Independent Non-executive Director	0/0(1)

Note:

(1) The appointment was effective from the Listing Date. Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an, members of Audit Committee, started to perform their duties on 9 March 2017.

According to the Articles of Association, general meetings are divided into annual general meeting and extraordinary general meeting. The general meeting is generally convened by the Board. The annual general meeting shall be held at lease once a year within six months after the end of the previous fiscal year. During the Reporting Period, the Company held a total of 8 general meetings, including 5 extraordinary general meetings. The attendance of each Director at such meetings is set out as follows:

Name of Directors	Title	Number of meetings attended/held
Mr. Zhang Qi	Executive Director & Chairman of the Board	8/8
Mr. Liao Xingyue	Executive Director & General Manager	8/8
Mr. Wang Junhua	Executive Director & Deputy General Manager	8/8
Mr. Chen Bing	Non-executive Director	8/8
Mr. Yang Ronggui	Non-executive Director	8/8
Ms. Xu Yan	Non-executive Director	8/8
Mr. Gu Ming'an	Independent Non-executive Director	0/0(1)
Mr. Lin Bing	Independent Non-executive Director	0/0(1)
Mr. Cheng Hok Kai, Frederick	Independent Non-executive Director	0/0(1)

Note:

(1) The appointment was effective from the Listing Date. Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an, members of Audit Committee, started to perform their duties on 9 March 2017.

During the Reporting Period, the general meeting considered and approved 36 major proposals, including: proposal on the plan for Xinglu Water to increase the registered capital and shares; proposal on the profit distribution plan of the parent company for 2015; proposal on the Company's public offering of shares and listing abroad; proposal on conversion of the Company into a overseas offering limited company; proposal on reduction in state-owned Shareholders' shareholding or transfer of part of the state-owned shares.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors are required to keep abreast of their obligations and duties of loyalty and diligence as Directors, and the Company's operating practices, business activities and developments.

All Directors are provided with formal, comprehensive and targeted presentations at the time of their first appointment to ensure that the new Directors are properly aware of the business and operation of the Company and gain comprehensive understanding of the functions and responsibilities under the Listing Rules and the applicable laws.

CORPORATE GOVERNANCE REPORT (Continued)

Directors are required to participate in appropriate continuing professional training, develop and update their knowledge and skills to ensure that they continue to make contribution to the Board with comprehensive and required information. During the Reporting Period, the Company also arranged for the Directors, Supervisors and relevant senior management to attend the lecture on "IPO and continuous liability upon IPO" by the overseas lawyers of the Company, thereby enhancing its management's understanding on the Listing Rules. Mr. Zhang Qi, Mr. Liao Xingyue, Mr. Wang Junhua, Mr. Chen Bing, Mr. Yang Ronggui, Ms. Xu Yan, Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick have participated in such training and provided relevant records to the Company. The Directors are able to make appropriate contributions to the Board by participating in the training programs to improve and upgrade their own knowledge and skills.

CHAIRMAN AND GENERAL MANAGER

The duties of the Chairman and the general manager are separate and held by different persons, and have been clearly defined in the Articles of Association. Executive Director Mr. Zhang Qi holds the post of Chairman while executive Director Mr. Liao Xingyu holds the post of the general manager. The Chairman is elected by a majority vote of all the Directors. The general manager is nominated and appointed by the Board.

The Chairman is mainly responsible for the overall operation of the Board, the Company's strategic development plan, and the making of material decisions, while the general manager is responsible for the day-to-day business management of the Company.

The Chairman places great emphasis on the communication with non-executive Directors (including independent non-executive Directors) and meets with non-executive Directors (including independent non-executive Directors) at least once a year in the absence of executive Directors to discuss about the Company's development strategies, corporate governance, and management.

The Chairman encourages open and active discussions. Directors may speak freely at the Board meetings and actively participate in the discussions of significant decision-makings in the Board meetings.

SPECIAL COMMITTEES

The Board has delegated a number of functions to corresponding committees. The Company has set up three special Board committees, namely, the Strategy Committee, the Nomination and Remuneration Committee and the Audit Committee.

1. Establishment of the Strategy Committee. It consists of the non-executive Director Mr. Chen Bing, executive Director Mr. Zhang Qi and independent non-executive Director Mr. Lin Bing, with Mr. Chen Bing serving as the chairperson of the committee.

   The primary responsibilities of Strategy Committee are to formulate the operation goals and long-term development strategies of our Company, making proposals on major events and supervising the implementation of annual operating plans and proposals.

The H Shares of the Company have been listed on the Stock Exchange since 31 March 2017. As the Company was not listed at the end of the Reporting Period, the Strategy Committee held no meetings during the Reporting Period. The Strategy Committee did not hold any meeting as of the Latest Practicable Date.

2. Establishment of the Nomination and Remuneration Committee. It consists of the independent non-executive Director Mr. Gu Ming'an, the independent non-executive Director Mr. Cheng Hok Kai, Frederick, and the executive Director Mr. Zhang Qi, with Mr. Gu Ming'an serving as the chairperson of the committee.

   The primary responsibilities of our Nomination and Remuneration Committee are to make recommendations to our Board on the appointment and removal of our Directors and senior management, establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

   The H Shares of the Company have been listed on the Stock Exchange since 31 March 2017. As the Company was not listed at the end of the Reporting Period, the Nomination and the Remuneration Committee held no meetings during the Reporting Period. The Nomination and the Remuneration Committee did not hold any meeting as of the Latest Practicable Date.

3. Establishment of the Audit Committee. It consists of the independent non-executive Director Mr. Cheng Hok Kai, Frederick, and the independent non-executive Director Mr. Gu Ming'an and non-executive Director Mr. Yang Ronggui, with Mr. Cheng Hok Kai, Frederick serving as the chairperson of the committee.

   The primary responsibilities of our Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters.

   The H Shares of the Company have been listed on the Stock Exchange since 31 March 2017. As the Company was not listed in the Reporting Period, the Audit Committee held no meetings at the end of the Reporting Period. The Audit Committee held a total of 1 meeting, discussed and considered preliminary financial information of the Group for the year ended 31 December 2016 set forth in appendix III to the Prospectus from the Listing Date to the Latest Practicable Date.

   The attendance record of each member of the committee is as follows:

Name of Director	Number of meetings attended/held	Note
Cheng Hok Kai, Frederick	1/1	Started performing duties on 9 March 2017
Gu Ming'an	1/1	Started performing duties on 9 March 2017
Yang Ronggui	1/1	Started performing duties on 9 March 2017

CORPORATE GOVERNANCE REPORT (Continued)

BOARD DIVERSITY POLICY

Pursuant to the Corporate Governance Code, the Board has adopted a board diversity policy. The Company recognises and embraces the benefits of diversity of Board members, and the Company will ensure that the Board strikes a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. All Board appointments will continue to be made on a merit basis, and selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience, skills and knowledge.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established formal and transparent procedures for the formulation of the remuneration policy for the senior management of the Group.

Details of the remuneration of Directors during the Reporting Period are set out in note 12 to the consolidated financial statements.

In accordance with paragraph B.1.5 of the Corporate Governance Code, the following table sets out the remuneration paid to senior management of the Company (excluding Directors) categorized by range during the Reporting Period:

Remuneration range *(RMB'000)*	**Number of people**
400–500	2
300–400	1

ACCOUNTABILITY AND AUDITING

The Directors confirm that they are aware of the responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2016. The Directors are of the view that the Group has sufficient resources to continue its business in the foreseeable future and is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue its operation as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Shareholders for approval.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its responsibility for supervising the risk management and internal control system of the Company, and conducts annual review on its efficiency and effectiveness through its Audit Committee. The Audit Committee assists the Board in the performance of its supervision of the Company's finance, compliance, risk management and internal control and resources in financial and internal auditing functions, employees' qualification and experience, employees' training and its budget as well as its role in corporate governance. The Board is responsible for the establishment, improvement and effective implementation of risk management and internal control system. The Supervisory Committee is responsible for the supervision of the establishment and implementation of the risk management and internal control system by the Board. The operating management is responsible for the organization of the daily operation of risk management and internal control. According to the proposals of the Audit Committee, the Company is of the opinion that the risk management and internal control system is effective, adequate and appropriate.

The Group has established standardised corporate governance structure and rules of procedure to specify the responsibilities and authority in decision-making, execution, supervision and other aspects. The risk management and internal control system of the Company is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management structure of the Group is formed with "Three Defence Lines (三道防線)", namely the business departments, the risk management department and the internal audit department. The first defence line that the business department is responsible for has three characteristics: sustainable risk return philosophy, available and latest risk-related information and compliance with other basic control measures. The Company earnestly analyses its situation within the industry on the basis of the general analysis on the macro-economic situation at home and abroad annually and conducts comprehensive risk management according to the strategic objective and control requirements. The second line of defence that the risk management department is responsible for is the higher-level risk management function established above the business department to ensure the actual implementation of the corporate risk management measures and maintain continuous supervision on the relevant work, whose duties are to conduct integrated management on the risks to which various business units are exposed, take charge of the disclosure of risk-related information, assist business units with internal control and pre-warning system management, and report to the Board on the internal control evaluation and internal audit, and follow up the rectification progress of defects found in prevention and control and internal control of material and significant risks so assessed. The third line of defence is the most important department for the implementation of the internal control system. As such, the internal audit department prepares annual audit plan based on problems and risks, supervises internal audit, and submits the results of audit supervision to the Audit Committee and the senior management of the Company for consideration and approval. Also, the internal audit department follows up the rectification progress of the problems identified in the audit and reports to the senior management of the Company.

CORPORATE GOVERNANCE REPORT (Continued)

The review period of the risk management and internal control system covered is within the Reporting Period. The procedures of reviewing the effectiveness of the risk management and internal control system of the Company consist of:

- target setting: information collection and risk identification, and preparation of risk list;

- risk analysis: to analyze the possibility of various potential risks and the property loss that may be caused by such risks, and to assess the potential effect thereof on the operational efficiency and business operations of the Group;

- risk response: the business department specifies the risk management strategy and risk management solutions and adjusts the strategies for risk response in a timely manner in line with different development stages and business operations; and

- risk monitoring and report: to prepare a risk management manual to specify the responsibilities of the management, Board and Audit Committee for risk management, and to constantly monitor the risk management and internal control system in accordance with the risk management manual.

The Company has formulated an inside information policy, pursuant to which, the Company shall conduct a review at least once a year to ensure its updates compliant with the latest regulatory requirements. According to this policy, the Group shall disclose inside information to the public as soon as reasonably practicable, unless such information is within the scope of safe harbor as provided in the SFO. The Group will ensure to keep relevant information in strict confidence before fully disclosing such information to the public.

AUDITOR AND AUDITOR'S REMUNERATION

A statement by the auditor of the Company regarding its reporting obligations under the consolidated financial statements is set out in the "Independent Auditor's Report" on Page 77 to 81 of this annual report.

The following table sets out the remuneration paid/payable to the Company's auditor, Deloitte Touche Tohmatsu, during the Reporting Period:

Charges for services	**Amount** *RMB'000*
Annual audit services	1,000
Other services, including reporting accountant's services for the IPO	3,370
Total charges	4,370

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company believes that it is vital to maintain effective communication with the Shareholders as a way to promote investor relations and deepen the investors' understanding on the Group's business performance and strategy. The Company also understands the importance of maintaining the transparency of and providing timely disclosure of the Company's information, which will enable the Shareholders and investors to make the best investment decisions.

The general meeting of the Company provides a platform for direct dialogue between the Board and the Shareholders.

RIGHTS OF SHAREHOLDERS

According to the Articles of Association, two or more Shareholders who collectively hold more than 10% (inclusive) of the voting Shares at the proposed extraordinary general meeting or Shareholders' class voting have the right to require the Board to convene an extraordinary general meeting or Shareholders' class meeting in accordance with the following procedures:

(1) to sign one or more written requests of the same format and content to propose the Board to convene a class meeting of Shareholders and clarify the subject matter of the meeting. The Board shall convene a class meeting of Shareholders as soon as possible after receiving the aforesaid written request. The percentage of shares mentioned above is calculated on the basis of the number of Shares on the date of the written request from the shareholders.

(2) if the Board has not issued a notice of convening a meeting within thirty days after receipt of the foregoing written request, the Shareholder who makes the request may, on its own, convene the meeting within four months of the receipt of the request by the Board. The related procedures for convening shall be as close as possible to that of the Board.

If such Shareholder convenes the meeting on its own after the Board fails to do so upon aforesaid requirements, the reasonable expenses incurred shall be borne by the Company and deducted from the amount owed by the Company to the delinquent Director.

According to the Articles of Association, Shareholders who hold more than three percent of the Shares, individually or collectively, may submit an interim proposal and submit it in writing to the convenor ten days before the general meeting. The convenor shall, within two days after receipt of the proposal, issue an additional notice of the general meeting to announce the contents of the interim proposal, which shall be submitted to the general meeting for consideration and approval. The content of interim proposals shall fall within the scope of responsibility of the general meeting and shall contain clear subjects for discussion and specific matters to be resolved.

CORPORATE GOVERNANCE REPORT (Continued)

The Company now lists the following communication information to facilitate the communication between the Shareholders and the Company:

Address:	No. 16, Baizi Road, Jiangyang District, Luzhou, Sichuan Province, PRC
Telephone number:	+86 830 3116150
Company website:	www.lzss.com
E-mail address:	lzxlwaterstock@lzss.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written request, notice or statement, or enquiry (as the case may be) to the above address and provide its (their) full name(s), contact detail(s) and identification(s) for the Company to reply. Shareholders' information may be disclosed as required by the law.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 2 May 2016, the Company passed a resolution to approve the amendments to the Articles of Association and the Articles of Association has come into force on the Listing Date. The updated Articles of Association has been published on the website of the Stock Exchange.

JOINT COMPANY SECRETARIES

Mr. Chen Yongzhong and Ms. Ng Wing Shan serve as the joint company secretaries of the Company. Mr. Chen Yongzhong is the principal contact of Ms. Ng in the Company. Ms. Ng is the assistant vice president of SW Corporate Service Group Limited, and assists Mr. Chen in fulfilling his duties as joint company secretaries of the Company. Mr. Chen and Ms. Ng have taken relevant training in 2016. Ms. Ng participated in training not less than 15 hours during the Reporting Period. The Company proposes to provide joint company secretaries with relevant professional training in 2017 to make sure compliance with Rule 3.29 of the Listing Rules.

REGULATORY REVIEW

The Company was not subject to administrative penalties for violating national administrative regulations during the Reporting Period.

LITIGATION AND ARBITRATION

During the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration and the Directors are not aware of legal proceedings or claims of material importance pending or threatened against the Group.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF LUZHOU XINGLU WATER (GROUP) CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 82 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of intangible assets not yet available for use	
We identified the impairment testing of intangible assets recognised under service concession arrangements not yet available for use ("IA") as a key audit matter due to its significance to the consolidated financial statements and significant judgement exercised by the directors of the Company on the impairment testing. As disclosed in note 17 to the consolidated financial statements, for the purpose of impairment testing, the carrying amount of the IA was RMB239.4 million. Determining the amount of impairment for such IA requires an estimation of the recoverable amounts, which are the value in use ("VIU") of the cash generating units ("CGUs") to which the IA have been allocated and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 5 and 17 to the consolidated financial statements. The directors of the Company determine that there was no impairment on the IA for the year ended 31 December 2016.	Our procedures in respect of the assessment of the impairment testing of such IA included: • Understanding the directors' impairment testing process, including the allocation of the IA to CGUs, the valuation model and assumptions used by the independent valuer engaged by the Group; • Evaluating the appropriateness of the model used and reviewing the calculation of VIU; • Understanding the Group's future business plan and the directors' estimate of future economic conditions involved in the preparation of financial budgets for the calculation of VIU; • Evaluating the reasonableness of the budgeted cash inflows and outflows in the financial budgets; • Challenging the management and the valuer about the reasonableness of the major assumptions and estimations used in the calculation of VIU; • Engaging our valuation expert to evaluate the appropriateness of the discount rate used; and • Reviewing whether the disclosures of the impairment testing in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of receivables under service concession arrangements (the "Receivables")	
We identified the impairment of the Receivables as a key audit matter due to its significance to the consolidated financial statements and the use of judgement and estimates in assessing the impairment of the Receivables. At 31 December 2016, the carrying amount of the Receivables is RMB773.2 million as disclosed in note 17 to the consolidated financial statements. In assessing the impairment of the Receivables, the management considers the credit quality of the Receivables, including default risk associated with the counterparties in the Receivables (the "Counterparties"), historical settlement records and subsequent settlements, as disclosed in notes 5 and 17 to the consolidated financial statements, and concluded that no impairment in the Receivables is necessary for the year ended 31 December 2016.	Our procedures in respect of the assessment of the impairment of the Receivables included: • Obtaining an understanding of the Group's credit policy granted to the Counterparties, credit controls and how the impairment of the Receivables is assessed by the management; and • Assessing the reasonableness of no impairment in the Receivables with reference to the credit quality of the Receivables, including default risk associated with the Counterparties, historical settlement records and subsequent settlements of the Counterparties.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises sections II, III and IV (Business Review, Financial Review and Outlook) of Management Discussion and Analysis which we obtained prior to the date of this auditor's report and Financial Highlights, Chairman's Statement, General Manager's Report, other sections of Management Discussion and Analysis, Directors' Report, Supervisory Committee's Report and Corporate Governance Report, which are expected to be made available to us after the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Financial Highlights, Chairman's Statement, General Manager's Report, other sections of Management Discussion and Analysis, Directors' Report, Supervisory Committee's Report and Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITOR'S REPORT (Continued)

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is K.W. Yim.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Revenue	6, 7	**836,191**	911,896
Cost of sales and services		**(621,582)**	(699,435)
Gross profit		**214,609**	212,461
Other income, expenses, gains and losses, net	8	**33,397**	19,329
Selling and distribution expenses		**(9,973)**	(8,311)
Administrative expenses		**(46,323)**	(38,706)
Listing expenses		**(1,798)**	–
Finance costs	9	**(24,100)**	(14,421)
Profit before tax	11	**165,812**	170,352
Income tax expense	10	**(25,016)**	(25,934)
Profit for the year		**140,796**	144,418
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**126,647**	130,412
– Non-controlling interests		**14,149**	14,006
		140,796	144,418
Earnings per share *(RMB)*	14		
– Basic		**0.20**	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**37,002**	39,740
Investment properties	16	**13,359**	14,183
Intangible assets	17	**1,022,144**	1,070,892
Prepaid lease payments	18	**78,141**	77,912
Prepayments for prepaid lease payments	24	**4,000**	4,000
Receivables under service concession arrangements	17	**761,901**	386,007
Available-for-sale investments	19	**53,630**	53,630
Deferred income tax assets	20	**5,104**	4,497
		1,975,281	1,650,861
CURRENT ASSETS			
Inventories	21	**17,395**	17,465
Receivables under service concession arrangements	17	**11,294**	4,821
Amounts due from customers for contract works	22	**8,470**	7,696
Trade receivables	23	**83,717**	71,326
Prepaid lease payments	18	**1,637**	1,558
Prepayments and other receivables	24	**29,774**	16,192
Restricted bank balance	25	**5,000**	–
Bank balances and cash	25	**526,569**	289,309
		683,856	408,367
CURRENT LIABILITIES			
Borrowings	26	**319,674**	251,412
Trade payables	27	**10,442**	5,313
Advances from customers and other payables	28	**319,915**	218,702
Provisions	30	**14,214**	10,639
Current income tax liabilities		**21,205**	37,633
		685,450	523,699
NET CURRENT LIABILITIES		**(1,594)**	(115,332)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,973,687**	1,535,529

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
CAPITAL AND RESERVES			
Share capital/Paid-in capital	31	**664,310**	600,000
Reserves		**625,474**	431,381
Equity attributable to owners of the Company		**1,289,784**	1,031,381
Non-controlling interests		**81,489**	63,876
TOTAL EQUITY		**1,371,273**	1,095,257
NON-CURRENT LIABILITIES			
Borrowings	26	**365,609**	239,508
Deferred revenue	29	**128,639**	127,332
Provisions	30	**96,544**	62,943
Deferred income tax liabilities	20	**11,622**	10,489
		602,414	440,272
		1,973,687	1,535,529

The consolidated financial statements on pages 82 to 172 were approved and authorised for issue by the Board of Directors on 21 March 2017 and are signed on its behalf by:

Zhang Qi
DIRECTOR

Liao Xing Yue
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company						
	Paid-in capital/ share capital RMB'000	**Capital reserve** RMB'000	**Statutory surplus reserve** RMB'000 (Note)	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
As at 1 January 2015	248,286	155,360	23,871	179,291	606,808	49,177	655,985
Profit and total comprehensive income for the year	–	–	–	130,412	130,412	14,006	144,418
Appropriation for the year	–	–	6,088	(6,088)	–	–	–
Capital contribution by shareholders *(Note 31)*	30,424	267,600	–	–	298,024	–	298,024
Capital contribution by a non-controlling shareholder of a subsidiary	–	–	–	–	–	3,600	3,600
Acquisitions of additional equity interests from non-controlling interests *(Note 32)*	–	–	–	–	–	(463)	(463)
Dividend declared by subsidiaries	–	–	–	–	–	(2,444)	(2,444)
Dividend declared	–	–	–	(12,176)	(12,176)	–	(12,176)
Event-driven revaluation *(Note 16)*	–	8,313	–	–	8,313	–	8,313
Conversion into a joint stock company *(Note 31)*	321,290	(255,866)	(28,002)	(37,422)	–	–	–
At 31 December 2015	**600,000**	**175,407**	**1,957**	**254,017**	**1,031,381**	**63,876**	**1,095,257**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**126,647**	**126,647**	**14,149**	**140,796**
Appropriation for the year	**–**	**–**	**4,061**	**(4,061)**	**–**	**–**	**–**
Capital contribution by shareholders *(Note 31)*	**64,310**	**69,270**	**–**	**–**	**133,580**	**–**	**133,580**
Capital contribution by a non-controlling shareholder of a subsidiary	**–**	**–**	**–**	**–**	**–**	**1,640**	**1,640**
Acquisitions of additional equity interests from non-controlling interests *(Note 32)*	**–**	**(1,824)**	**–**	**–**	**(1,824)**	**1,824**	**–**
At 31 December 2016	**664,310**	**242,853**	**6,018**	**376,603**	**1,289,784**	**81,489**	**1,371,273**

Note: Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each of the entities established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management of the subsidiary) to the reserve fund (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**165,812**	170,352
Adjustments for:		
Bank interest income	**(1,878)**	(2,000)
Listing expenses	**1,798**	–
Government grants recognised	**(6,488)**	(7,130)
Profit from construction and upgrade services of infrastructure	**(664)**	(673)
Depreciation and amortisation	**35,529**	29,385
Gains on disposal of property, plant and equipment, investment properties and prepaid lease payments, net	**(6,230)**	(802)
(Reversal of impairment losses) impairment losses on trade and other receivables	**(58)**	715
Finance costs	**24,100**	14,421
Operating cash flows before movements in working capital	**211,921**	204,268
Decrease in inventories	**70**	1,659
Increase in trade and other receivables and prepayments	**(8,937)**	(6,869)
(Increase) decrease in amounts due from customers for contract works	**(774)**	350
Decrease in receivables under service concession arrangements	**7,235**	2,523
Increase in trade and other payables and advance from customers	**28,256**	4,652
Increase in provisions	**33,571**	13,320
Cash generated from operations	**271,342**	219,903
Income tax paid	**(40,918)**	(22,450)
NET CASH FROM OPERATING ACTIVITIES	**230,424**	197,453

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES		
Payments for purchases of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of infrastructure	**(294,889)**	(433,408)
Payments for acquisitions of available-for-sale investments	**–**	(15,759)
Government grants received	**7,795**	13,476
Purchase of other financial assets	**(35,000)**	–
Redemption of other financial assets	**35,000**	–
Proceeds from disposal of property, plant and equipment, investment properties and prepaid lease payments	**7,896**	3,323
Increase in restricted bank balance	**(5,000)**	–
Bank interest received	**1,878**	2,000
NET CASH USED IN INVESTING ACTIVITIES	**(282,320)**	(430,368)
FINANCING ACTIVITIES		
Capital contribution by shareholders	**133,580**	298,024
Capital contribution by a non-controlling shareholder of a subsidiary	**1,640**	3,600
Proceeds from new borrowings	**466,000**	504,451
Repayments of borrowings	**(271,637)**	(402,845)
Payments of interest expense	**(29,521)**	(24,646)
Payment of listing expenses	**(10,580)**	(2,200)
Dividends paid	**(315)**	(11,861)
Dividends paid to non-controlling shareholders of subsidiaries	**(11)**	(11,995)
Acquisitions of additional equity interests from non-controlling interests	**–**	(463)
NET CASH FROM FINANCING ACTIVITIES	**289,156**	352,065
NET INCREASE IN CASH AND CASH EQUIVALENTS	**237,260**	119,150
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**289,309**	170,159
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by:		
Bank balances and cash	**526,569**	289,309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

The Company was established in The People's Republic of China (the "PRC") on 31 July 2002 as a limited liability company under the Company Law of the PRC. On 25 December 2015, the Company was converted into a joint stock limited liability company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the provision of tap water supply and related installation and maintenance service, wastewater treatment service and construction service.

The address of the registered office and the principal place of business of the Company is No. 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. It was registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance (Cap. 622) on 12 September 2016.

In the opinion of the directors of the Company (the "Directors"), the Company's immediate and ultimate holding company is 瀘州市興瀘投資集團有限公司 (Luzhou Xinglu Investment Group Co., Ltd.), which is established in the PRC as a limited liability company under the Company Law of the PRC.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries.

2. BASIS OF PREPARATION

The Group had net current liabilities of RMB1,594,000 as at 31 December 2016 (2015: RMB115,332,000). In the opinion of the Directors, the consolidated financial statements have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account of the expected cash flows from operations, undrawn banking facilities currently available to the Group (note 26(g)) and new bank borrowings obtained subsequent to 31 December 2016 (note 40).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has consistently applied International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), amendments and interpretations issued by the International Accounting Standards Board ("IASB") which are effective for annual accounting periods beginning on 1 January 2016 throughout the years reported.

The Group has not early applied the following new standards and amendments that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as disclosed below, the application of the new and revised IFRSs issued but not yet effective will have no material impact on the Group's financial performance and positions and/or the disclosures when they became effective.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 9 *Financial Instruments*

IFRS 9 introduced new requirements for the classification and measurement of financial assets, liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 9 *Financial Instruments (Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that application of IFRS 9 may have a material impact on the classification and measurement of the Group's available-for-sale investments stated at cost less impairment which will be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). In addition, there will be the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost in the application of IFRS 9. Save as the aforesaid, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 15 *Revenue from Contracts with Customers (Continued)*

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Based on the assessment so far, the Directors do not expect the adoption of IFRS 15 would result in significant impact on its revenue recognition, however, may result in additional disclosures.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-Based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has the power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each items of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of entity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The Group's intangible assets represent operating concessions and are stated at cost less accumulated amortisation and impairment, if any. Operating concessions are amortised over the tenure of the service concession arrangements, using straight-line method. Further details of operating concessions are set out in "Service concession arrangements" below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets

At the end of the Reporting Period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually and whether there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors").

Under these service concession arrangements:

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and

- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or both the Group's practical ability to sell or pledge the infrastructure is restricted and continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.

The Group's infrastructure includes leasehold land, buildings, plant and machinery that are acquired from the Grantors and/or are derecognised by the Group (when the Directors consider that the significant risks and rewards of these assets haven been passed to the Grantors) upon the service concession arrangements established.

Consideration given to the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantors for the consideration paid and payable by the Group to the Grantors. The Group has unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public service and specified or determinable amounts.

The financial assets (receivables under service concession arrangement) are accounted for in accordance with the policy set out for loans and receivables under "Financial instruments" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public use. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets" above.

If the Group is paid for the consideration partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Operating service

Revenue relating to operating service are accounted for in accordance with the policy for "Revenue" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licences to maintain the wastewater treatment and water supply plants to a specified level of serviceability. These contractual obligations to maintain the wastewater treatment and water supply plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Construction and upgrade services

Revenue and costs relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Construction contracts" below while the costs incurred to date plus recognised profits less recognised losses, if any, (representing the revenue) are included in intangible assets.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the Reporting Period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Reporting Period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the Reporting Period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risk and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average costing method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions as incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), available-for-sale (AFS) investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income, expenses, gains and losses, net" line item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

AFS investments

AFS equity securities held by the Group that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including receivables under service concession arrangements, trade and other receivables (including amount due from the immediate holding company of the Company), restricted bank balance, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets of the Group other than those at FVTPL are assessed for indicators of impairment at the end of the Reporting Period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Objective evidence of impairment for receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group (including borrowings, trade and other payables (including amounts due to immediate holding company of the Company, fellow subsidiaries and non-controlling shareholders of subsidiaries)) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Sale of tap water

Sale of tap water is recognised when a Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

Revenue from construction contracts and construction or upgrade services of the existing or new infrastructure

Revenue from installation service and construction or upgrade services of the existing or new infrastructure is recognised on the percentage-of-completion method.

Sale of service

Revenue from wastewater treatment operation, maintenance service and other services is recognised when service is rendered.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's policy for recognition of revenue from operating leases is described in the accounting policy in "Leasing" above.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

(a) *Control over Jiangnan Water and Nanjiao Water*

The financial statements of Jiangnan Water and Nanjiao Water (defined in note 10) have been consolidated in the consolidated financial statements although the Company only has less than 50% of equity holding therein. In the opinion of the Directors, the Company holds majority voting right in their shareholders' meetings according to agreements with an individual (who has 9.89% and 14.34% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 1 January 2015 to 11 December 2015 and 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 12 December 2015 to 2 February 2016) who agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company. Besides, on 3 February 2016, the Company also entered into agreements with a PRC limited liability partnership (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively, since then and the aforesaid individual transferred his certain equity interests in Jiangnan Water and Nanjiao Water to it on 12 December 2015) which agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company.

(b) *Accounting for the Group's service concession arrangements under IFRIC Interpretation 12 Service Concession Arrangements*

Note 17 describes that the Group's service concession arrangements are accounted for as intangible assets and/or financial assets (receivables under service concession arrangements) in accordance with IFRIC Interpretation 12 *Service Concession Arrangements* because, in the opinion of the Directors, the Group's service concession arrangements contain the following:

- the grantors control or regulate the tap water supply and wastewater treatment services the Group must provide with the infrastructure, to whom the Group must provide such services, and at prices regulated by the grantors;

- the entire life of the infrastructure are used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service; and

- the grantors restrict the Group's practical ability to sell or pledge the infrastructure that give the grantors continuing right of use throughout the period of the arrangement.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next twelve months.

(a) Impairment test on intangible assets recognised under service concession arrangements that have yet to be in operation

Included in the intangible assets of the Group as at 31 December 2016 are intangible assets recognised under service concession arrangements of RMB239.4 million (2015: RMB605.6 million) that have yet to be in operation and which have been allocated to individual cash generating units ("CGUs") in tap water supply and wastewater treatment segments. Determining whether such intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which the intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and suitable discount rates in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts, circumstances and the existing government policies, including preferential tax treatment, applicable to the relevant operation which results in downward revision of future cash, a material impairment loss may arise. At the end of the Reporting Period, no impairment loss was considered to be recognised. Details of the recoverable amount calculation are disclosed in note 17.

(b) Impairment of trade and other receivables and receivables under service concession arrangements

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables and receivables under service concession arrangements. When there is objective evidence of impairment loss, the Group takes into consideration of default risk associated with the debtors, ageing analysis, historical collection trends and subsequent settlements for the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment assessment requires the use of judgement and estimates. When the actual future cash flows are less than expected, a material impairment loss may arise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Provisions for maintenance of infrastructure under service concession arrangements

The Group has contractual obligations that it must fulfill as a condition of its licence to maintain the infrastructure to a specified level of serviceability during the service concession arrangements. These contractual obligations to maintain infrastructure, except for any upgrade element, shall be recognised and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* at the best estimate of the expenditure that would be required to settle the present obligation at the end of the Reporting Period in the consolidated statement of financial position. Should the payments and timing to settle the expenditure differ from the estimates, the provisions recognised in the consolidated statement of financial position at the end of the Reporting Period and the amount to be charged to the profit or loss will be changed.

6. REVENUE

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Tap water supply		
– Tap water	**179,353**	163,348
– Installation and maintenance services	**136,132**	131,760
– Construction and upgrade services of tap water supply infrastructure	**214,239**	236,448
	529,724	531,556
Wastewater treatment		
– Operating service	**125,885**	109,002
– Interest income on receivables under service concession arrangements	**27,158**	18,959
– Construction and upgrade services of wastewater treatment infrastructure	**153,424**	252,379
	306,467	380,340
	836,191	911,896

7. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("CODM"), during the year, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply and related construction, installation and maintenance services

- Wastewater treatment – provision of wastewater treatment service and related construction service

The tap water supply segment includes the Company and its subsidiaries mainly providing tap water supply and related construction, installation and maintenance services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, "Tap water supply segment", because, in the opinion of the Directors, they have similar economic characteristics and provide tap water supply and related construction, installation and maintenance services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

For the year ended 31 December 2015, financial statements of the Company and its subsidiaries prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC were reported to CODM. For the year ended 31 December 2016, IFRS financial information was reported to CODM and the segment information for the year ended 31 December 2015 has been re-presented to conform to the segment information for the year ended 31 December 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**179,353**	163,348
– Installation and maintenance services	**136,132**	131,760
– Construction and upgrade services of tap water supply infrastructure	**214,239**	236,448
– Inter-segment sales		
– Tap water	**644**	658
Wastewater treatment		
– From external customers		
– Operating service	**125,885**	109,002
– Interest income on receivables under service concession arrangements	**27,158**	18,959
– Construction and upgrade services of wastewater treatment infrastructure	**153,424**	252,379
Elimination*	**(644)**	(658)
Revenue	**836,191**	911,896
Segment results		
– Tap water supply	**81,998**	93,634
– Wastewater treatment	**60,596**	50,784
Unallocated expenses	**(1,798)**	–
Profit after tax	**140,796**	144,418

* Inter-segment sales for the years ended 31 December 2015 and 2016 were conducted at terms mutually agreed among the companies comprising the Group.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Segment assets		
– Tap water supply	**1,512,283**	1,055,179
– Wastewater treatment	**1,127,716**	1,001,849
Unallocated corporate assets	**19,178**	2,200
Elimination	**(40)**	–
Consolidated total assets	**2,659,137**	2,059,228
Segment liabilities		
– Tap water supply	**699,710**	367,242
– Wastewater treatment	**579,998**	596,729
Unallocated corporate liabilities	**8,196**	–
Elimination	**(40)**	–
Consolidated total liabilities	**1,287,864**	963,971

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly other than unallocated corporate assets (represent deferred listing expenses) and unallocated corporate liabilities (represent listing expenses payable).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION *(Continued)*

Other segment information

Amounts included in the measure of segment profit and segment assets:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income		
– Tap water supply	**1,537**	1,466
– Wastewater treatment	**27,499**	19,493
	29,036	20,959
Finance costs		
– Tap water supply	**(9,938)**	(5,232)
– Wastewater treatment	**(14,162)**	(9,189)
	(24,100)	(14,421)
Depreciation and amortisation		
– Tap water supply	**(29,643)**	(24,831)
– Wastewater treatment	**(5,886)**	(4,554)
	(35,529)	(29,385)
Reversal of impairment losses (impairment losses) on trade and other receivables		
– Tap water supply	**58**	(710)
– Wastewater treatment	**–**	(5)
	58	(715)
Income tax expense		
– Tap water supply	**(14,305)**	(16,853)
– Wastewater treatment	**(10,711)**	(9,081)
	(25,016)	(25,934)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

Amounts included in the measure of segment profit and segment assets: *(Continued)*

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Provisions for maintenance of infrastructure under service concession arrangements		
– Tap water supply	**(22,296)**	(8,172)
– Wastewater treatment	**(21,914)**	(19,243)
	(44,210)	(27,415)
Additions to non-current assets (other than financial instruments and deferred tax assets)		
– Tap water supply	**(211,215)**	(198,971)
– Wastewater treatment	**(163,580)**	(307,352)
	(374,795)	(506,323)

The Group's revenue from its major products and services are set out in note 6.

Geographical information

The Group's operation is in the PRC and all its non-current assets other than receivables under service concession arrangements, available-for-sale investments and deferred income tax assets are situated in the PRC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Customer A		
– Operating service	**99,453**	76,950
– Interest income on receivables under service concession arrangements	**21,441**	10,637
– Construction and upgrade services of wastewater treatment infrastructure	**153,424**	252,379
Customer B		
– Construction and upgrade services of tap water supply infrastructure	**201,027**	234,543

8. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank interest income	**1,878**	2,000
Deferred revenue in respect of government grants recognised	**6,488**	7,130
Value-added-tax ("VAT") refunds *(Note (a))*	**13,821**	4,800
Commission income on garbage fees collected for governmental bureau	**1,335**	1,659
Late charges on tap water users	**2,320**	2,111
Rental income less outgoings	**765**	706
Gains on disposal of property, plant and equipment, net	**3,830**	27
Gain on disposal of prepaid lease payments	**654**	775
Gain on disposal of investment properties	**1,746**	–
Reversal of impairment losses (impairment losses) on trade and other receivables	**58**	(715)
Foreign exchange losses, net	**(478)**	(451)
Donations	**(146)**	(96)
Others *(Note (b))*	**1,126**	1,383
	33,397	19,329

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

8. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET *(Continued)*

Notes:

a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.

b. Others mainly include water quality inspection fees, gain on sale of sanitaryware and other materials, etc.

9. FINANCE COSTS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest on bank borrowings	**26,578**	1,866
Interest on other borrowings	**2,943**	22,770
Unwinding of the discount *(Note 30)*	**3,605**	2,815
	33,126	27,451
Less: Amount capitalised in qualified assets	**(9,026)**	(13,030)
	24,100	14,421

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current tax	**24,490**	25,845
Deferred tax *(Note 20)*	**526**	89
Total income tax recognised in profit or loss	**25,016**	25,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

10. INCOME TAX EXPENSE *(Continued)*

The Group entities are subject to PRC Enterprise Income Tax ("EIT") at 25% during the year (2015: 25%), except for the following group entities:

Name of company	Applicable EIT rate	Financial years
The Company*	15%	Years ended 31 December 2015 and 2016
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ("Beijiao Water")*	15%	Years ended 31 December 2015 and 2016
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) ("Heijiang Water")*	15%	Years ended 31 December 2015 and 2016
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) ("Jiangnan Water")*	15%	Years ended 31 December 2015 and 2016
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) ("Naxi Water")*	15%	Years ended 31 December 2015 and 2016
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water")*	15%	Years ended 31 December 2015 and 2016
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) ("Sitong Engineering")*	15%	Years ended 31 December 2015 and 2016
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment")*	15%	Years ended 31 December 2015 and 2016
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("Sitong Design")**	10%	Years ended 31 December 2015 and 2016

10. INCOME TAX EXPENSE *(Continued)*

* According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the years ended 31 December 2015 and 2016, the aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the years ended 31 December 2015 and 2016 accounted for more than 70% of their total revenue in these years, and therefore enjoy the preferential EIT rate of 15%.

** Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the three years ending 31 December 2017, small scale and low profit margin companies with annual taxable income of less than RMB200,000 (inclusive of RMB200,000) shall be subject to a business income tax rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfies the criteria of a small-scale and low profit-margin company, it shall be eligible for the preferential effective tax rate of 10%.

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**165,812**	170,352
Tax at PRC EIT rate of 15% *(Note)*	**24,872**	25,553
Tax effect of expenses not deductible for tax purpose	**124**	360
Effect of different applicable tax rates of subsidiaries	**20**	21
Income tax expense	**25,016**	25,934

Note: For the years ended 31 December 2015 and 2016, the PRC EIT rate of 15% is applicable to the Company and most of its subsidiaries that account for substantial operation of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

11. PROFIT BEFORE TAX

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**6,627**	5,699
Depreciation of investment properties	**465**	386
Amortisation of intangible assets	**26,809**	21,693
Amortisation of prepaid lease payments	**1,628**	1,607
Auditors' remuneration	**1,180**	–
Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 12 below):		
– Salaries, wages and welfare	**80,105**	69,449
– Retirement benefit schemes contributions	**15,734**	14,288
Total staff costs	**95,839**	83,737
and after crediting:		
Gross rental income from investment properties	**1,069**	938
Less: Direct operating expenses incurred for investment properties that generated rental income	**(304)**	(232)
	765	706

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and supervisors

Details of the emoluments paid to the Directors and supervisors during the year are as follows:

		Other emoluments		
	Fees *RMB'000*	Salaries, wages, allowance and others *RMB'000*	Retirement benefit schemes contributions *RMB'000*	Total *RMB'000*
2016				
Executive Directors				
Mr. Chen Bing	–	–	–	–
Mr. Yang Rong Gui	–	–	–	–
Mr. Zhang Qi	–	456	75	531
Mr. Wang Jun Hua	–	285	75	360
Ms. Xiang Min *(Note (c))*	–	167	44	211
Ms. Xu Yan	–	–	–	–
Mr. Liao Xing Yue	–	180	35	215
Supervisors				
Ms. Qu Mei	–	–	–	–
Ms. Huang Mei *(Note (d))*	–	358	75	433
Mr. Huang Xiao Lin *(Note (e))*	–	71	34	105
Mr. Zhu Yu Chuan	–	183	57	240
Mr. Xu Ke	–	–	–	–
Ms. Xiang Min *(Note (c))*	–	98	31	129
	–	1,798	426	2,224

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors and supervisors *(Continued)*

		Other emoluments		
	Fees	Salaries, wages, allowance and others	Retirement benefit schemes contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2015				
Executive Directors				
Ms. Liu Jun Tao *(Note (b))*	–	–	–	–
Mr. Chen Bing	–	–	–	–
Mr. Yang Rong Gui	–	–	–	–
Mr. Zhang Qi	–	605	70	675
Mr. Wang Jun Hua	–	427	70	497
Ms. Xiang Min	–	354	66	420
Ms. Xu Yan	–	–	–	–
Mr. Liao Xing Yue *(Note (a))*	–	–	–	–
Supervisors				
Ms. Qu Mei	–	–	–	–
Ms. Huang Mei	–	487	70	557
Mr. Huang Xiao Lin	–	155	59	214
Mr. Zhu Yu Chuan	–	160	62	222
Mr. Xu Ke *(Note (a))*	–	–	–	–
	–	2,188	397	2,585

The emoluments of the executive directors and supervisors shown above were for their management services rendered to the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors and supervisors *(Continued)*

Notes:

(a) Mr. Xu Ke was appointed as a supervisor and Mr. Liao Xing Yue was appointed as an executive director on 22 December 2015.

(b) Ms. Liu Jun Tao resigned as an executive director on 25 September 2015.

(c) Ms. Xiang Min resigned as an executive director on 16 May 2016 and was appointed as a supervisor on 13 July 2016.

(d) Ms. Huang Mei resigned as a supervisor on 1 June 2016.

(e) Mr. Huang Xiao Lin resigned as a supervisor on 13 July 2016.

Mr. Zhang Qi was the General Manager of the Company for the period from 1 January 2015 to 21 December 2015 and Mr. Liao Xing Yue is the General Manager of the Company for the period from 22 December 2015 to 31 December 2016 and they assumed the role of the chief executive. Their emoluments disclosed above included their services rendered as General Manager of the Company.

Employees

Of the five individuals with the highest emoluments in the Group, 4 individuals (2015: 4 individuals) were executive directors and supervisors whose emoluments for year ended 31 December 2016 are included in the disclosure above and the emoluments of the remaining 1 individual (2015: 1 individual) was as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, wages, allowance and others	**390**	252
Retirement benefit schemes contributions	**75**	20
	465	272

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees *(Continued)*

The emoluments of the above employees were within the following band:

	Year ended 31 December	
	2016	2015
	(Number of employee)	
Less than HK$1,000,000	**1**	1

During the years ended 31 December 2015 and 2016, no emoluments were paid by the Group to any Directors nor supervisors as an inducement to join or upon joining the Group or as compensation for loss of office and none of the Directors nor supervisors waived any emoluments.

13. DIVIDENDS

During the year ended 31 December 2015, dividends of RMB12,176,000 have been distributed by the Company to its then equity holders. It is not meaningful to present dividend per share information because the Company did not have the number of ordinary shares when such dividends were declared.

No dividend has been declared by the Company for the year ended 31 December 2016.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2016	2015
Profit attributable to the owners of the Company *(RMB'000)*	**126,647**	130,412
Weighted average number of ordinary shares issued or deemed to be issued *('000)*	**641,116**	594,617

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

14. EARNINGS PER SHARE *(Continued)*

The Company was converted to a joint stock company on 25 December 2015, 600,000,000 ordinary shares with par value of RMB1 each were issued and allotted to the respective shareholders of the Company according to the paid-in capital registered under these shareholders on that day. This capitalisation of share capital is applied retrospectively, as adjusted for the capital contributions by shareholders (note 31) for the year ended 31 December 2015 for the purpose of computation of basic earnings per share.

During the years ended 31 December 2015 and 2016, there was no potential ordinary share outstanding. Accordingly, no diluted earnings per share is presented.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Machinery and office equipment**	**Motor vehicles**	**Office furniture and fixtures**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 January 2015	19,103	22,888	14,828	1,871	58,690
Addition	425	8,166	59	1,351	10,001
Disposal	–	(196)	(6)	–	(202)
At 31 December 2015	19,528	30,858	14,881	3,222	68,489
Addition	162	1,793	1,220	1,302	4,477
Disposal	(875)	(425)	(189)	–	(1,489)
At 31 December 2016	**18,815**	**32,226**	**15,912**	**4,524**	**71,477**
Accumulated depreciation					
At 1 January 2015	(5,281)	(9,174)	(7,688)	(1,076)	(23,219)
Depreciation for the year	(1,036)	(2,473)	(1,606)	(584)	(5,699)
Eliminated on disposal	–	165	4	–	169
At 31 December 2015	(6,317)	(11,482)	(9,290)	(1,660)	(28,749)
Depreciation for the year	(1,030)	(2,733)	(2,123)	(741)	(6,627)
Eliminated on disposal	340	379	182	–	901
At 31 December 2016	**(7,007)**	**(13,836)**	**(11,231)**	**(2,401)**	**(34,475)**
Carrying amounts					
At 31 December 2016	**11,808**	**18,390**	**4,681**	**2,123**	**37,002**
At 31 December 2015	13,211	19,376	5,591	1,562	39,740

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis based on their estimated useful lives of the following years, after taking into account the estimated residual value of 3% to 5%:

Buildings	10–50 years
Machinery and office equipment	3–10 years
Motor vehicles	5–10 years
Office furniture and fixtures	3–10 years

16. INVESTMENT PROPERTIES

	RMB'000
Cost	
At 1 January 2015	7,969
Event-driven revaluation *(Note)*	10,811
At 31 December 2015	18,780
Addition	649
Disposal	(2,024)
At 31 December 2016	**17,405**
Accumulated depreciation	
At 1 January 2015	(4,484)
Depreciation for the year	(386)
Event-driven revaluation *(Note)*	273
At 31 December 2015	(4,597)
Depreciation for the year	(465)
Eliminated on disposal	1,016
At 31 December 2016	**(4,046)**
Carrying amounts	
At 31 December 2016	**13,359**
At 31 December 2015	14,183

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

16. INVESTMENT PROPERTIES *(Continued)*

Note: As part of the reorganisation, 瀘州市興瀘水務(集團)水晶商場有限公司(前稱瀘州市水晶商場) (Luzhou Xinglu Water (Group) Crystal Mall Co., Ltd., formerly known as Luzhou Water Crystal Mall) ("Luzhou Water Crystal Mall"), a subsidiary of the Company, was transformed from a state-owned enterprise to a limited liability company by the Company. According to certain regulations issued by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), all assets and liabilities of Luzhou Water Crystal Mall should be revalued and the revaluation surplus should be recorded in its equity upon the transformation. The Company engaged 四川榮盛資產評估事務所 ("Sichuan Rong Sheng"), a certified asset appraiser in the PRC and a member of China Appraisal Society, to carry out an independent valuation on the assets and liabilities of Luzhou Water Crystal Mall as at 31 May 2015, the valuation date for the purpose of such exercise. Sichuan Rong Sheng issued a valuation report of 3 December 2015 which was approved by Luzhou SASAC in the same year.

Based on the valuation, the investment property of Luzhou Water Crystal Mall was valued at RMB11,111,000 which was used as its deemed cost as at 1 June 2015 after the revaluation and an event-driven revaluation was recorded. Such event-driven revaluation surplus less a deferred tax liability of RMB2,771,000 recognised thereof amounting to RMB8,313,000 was credited to capital reserve.

The above investment properties are situated in the PRC held under medium term leases and are depreciated on a straight-line basis between 20 and 30 years, after taking into account the estimated residual value of 3% to 5%.

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

As further explained in the accounting policy for "Service concession arrangements" set out in note 4, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

In June 2005, the Group entered into a concession agreement with Luzhou Planning and Development Bureau for tap water supply operations in Luzhou urban area. In March 2016, the Group further entered into supplementary agreement to the concession agreement to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In September 2003, the Group entered into a share purchase agreement with Hejiang County Government which agreed to grant the Group the exclusive concession right to provide tap water supply service in Hejiang County area and applicable beneficial treatments for urban public utility service providers. In April 2016, the Group further entered into a concession agreement with Hejiang County Government which confirmed that the Group have the necessary qualifications and rights to conduct tap water supply service in Hejiang County area since the time the Group started to provide such services in Hejiang County area and the concession agreement also expressly sets forth that the term of the concession rights granted to the Group is for the concession period from September 2003 to September 2033.

In August 2001 and August 2002, the Luzhou City Government issued two meeting minutes designating the Group as the tap water supply service provider in Lu County area. In March 2016, the Group further entered into a concession agreement with Lu County Housing and Urban-rural Planning and Development Bureau which confirmed that the Group has necessary qualifications and rights to conduct tap water supply service in Lu County area from January 2005 to January 2035.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant government authorities to provide tap water supply in Luzhou urban area, Lu County area and Hejiang County area commencing from June 2005, January 2005 and September 2003, respectively. Upon the respective service concession arrangements established, the then relevant property, plant and equipment and prepaid lease payments of the Group were derecognised and they were recognised as intangible assets of the Group at fair value of these property, plant and equipment and prepaid lease payment as at corresponding dates. Besides, during the Service Concession Period, the Group also constructed/upgraded certain tap water supply infrastructure in Luzhou urban area, Lu County area and Hejiang County area to expand its tap water supply capacity and recognised the cost incurred to date plus recognised profits less recognised losses, if any, in intangible assets. Details of the Group's service concession arrangements for providing tap water supply are as follows:

	Luzhou urban area	**Lu County area**	**Hejiang County area**
Term of concession rights	30 years, from 6 June 2005 to 6 June 2035.	30 years, from 1 January 2005 to 1 January 2035.	30 years, from 24 September 2003 to 23 September 2033.
Rights to use specific assets	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.
Pricing	Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:
	• apply for adjustments to the retail water prices in the event the Group cannot maintain minimal profit in its tap water supply operations due to changes on production costs or objective conditions; and	• apply for adjustments to the retail water prices in the event the Group cannot maintain profit in its tap water supply operations; and	• apply for adjustments to the retail water prices in the event the Group suffers loss due to irresistible objective conditions; and
	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	**Lu County area**	**Hejiang County area**
Responsibilities	During the concession period, the Group shall: • ensure uninterrupted tap water supply to end users; • maintain water supply infrastructure; • monitor the quality of raw water source; • perform meter readings; and • disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	During the concession period, the Group shall: • ensure uninterrupted tap water supply to end users; • maintain water supply infrastructure; • monitor the quality of raw water source; • perform meter readings; and • disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	During the concession period, the Group shall: • ensure uninterrupted tap water supply to end users; • maintain water supply infrastructure; • monitor the quality of raw water source; • perform meter readings; and • disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.
Terms of termination	Upon expiry of concession period or in the event of the Group's default, including (amongst others): • asset disposal without permission; • material adverse impact on public interest and safety due to close of business without permission; • material quality or safety accidents; or • pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	Upon expiry of concession period or in the event of the Group's default, including (amongst others): • asset disposal without permission; • material adverse impact on public interest and safety due to close of business without permission; • material quality or safety accidents; or • pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	Upon expiry of concession period or in the event of the Group's default, including (amongst others): • fund raising activities not in compliance with the resulted in unauthorised asset pledge or disposal; • material adverse impact on public interest and safety due to close of business without permission; • material quality or safety accidents; or • pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	Lu County area	Hejiang County area
Rights to receive specified assets at the end of the concession period	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group before the concession agreement entered into in April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of the concession period, if any, will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company.
Terms of renewal	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory and the Group offers the same conditions as other bidders.

In August 2012, the Group entered into a service agreement with Naxi District Government for the grant of concession right to the Group to provide wastewater treatment service in Naxi District. In May 2014, the Group entered into a concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau that confirmed the Group's concession right to cover the provision of wastewater treatment service in Jiangyang District, Longmatan District and Naxi District for the period from 1 January 2013 to 31 December 2042.

In March 2016, the Group entered into a supplemental agreement to the aforesaid concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In October 2011, the Group entered into a service agreement with the People's Government of Xuyong County that set forth the grant of concession right to the Group to provide wastewater treatment service in Xuyong County area.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

In February 2013, the Group entered into a service agreement with Lu County Urban-rural Environmental and Health Bureau that set forth the grant of concession right to the Group to provide wastewater treatment service in Lu County area.

In April 2014, the Group entered into a service agreement with the People's Government of Hejiang County that set forth the grant of concession right to the Group to provide wastewater treatment service in Hejiang County area.

In July 2014, the Group entered into a service agreement with the People's Government of Gulin County that set forth the grant of concession right to the Group to provide wastewater treatment service in Gulin County area.

In March/April 2016, the Group further entered into concession agreements with the People's Government of Xuyong County, Lu County Urban-rural Environmental and Health Bureau, the People's Government of Hejiang County and the People's Government of Gulin County to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant government authorities to provide wastewater treatment service in Luzhou urban area, Lu County area, Gulin County area, Xuyong County area and Hejiang County area in January 2013, February 2013, August 2014, March 2012 and May 2014, respectively. Except for the service concession arrangements for Luzhou urban area (excluding Naxi District), the Group paid for the relevant infrastructure in Lu County area, Gulin County area, Xuyong County area, Hejiang County area and Naxi District and recognised as both receivables under service concession arrangements and intangible assets. The then relevant property, plant and equipment of the Group for Luzhou urban area (excluding Naxi District) were derecognised and both receivables under service concession arrangements and intangible assets were recognised by the Group at fair value of these property, plant and equipment upon the service concession arrangement established. Besides, during the Service Concession Period, the Group also constructed certain new wastewater treatment infrastructure in Luzhou urban area to expand its wastewater treatment capacity and recognised the cost incurred to date plus recognised profits less recognised losses, if any, in intangible assets during the construction phase and transferred the portion representing the extent that the Group has a contractual right to receive cash from grantors from intangible assets to receivables under service concession agreements when the Group is entitled to the minimum wastewater treatment volume guaranteed according to the relevant service concession agreements. Details of the Group's service concession arrangements for providing wastewater treatment service are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	**Lu County area**	**Gulin County area**	**Xuyong County area**	**Hejiang County area**
Term of concession rights	30 years, from 1 January 2013 to 31 December 2042.	30 years, from 1 February 2013 to 31 January 2043.	30 years, from 1 August 2014 to 31 July 2044.	30 years, from 1 March 2012 to 28 February 2042.	30 years, from 1 May 2014 to 30 April 2044.
Rights to use specific assets	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure	All relevant wastewater treatment infrastructure	All relevant wastewater treatment infrastructure.
Pricing	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Routine review of wastewater treatment unit tariff price is conducted every three years. Non-routine review of wastewater treatment unit tariff price is conducted upon change in production costs or additional capital expenditure incurred due to compliance with new environmental requirements.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.
Minimum wastewater treatment volume guaranteed	60%, 70% and 75% (80% for Naxi District) of designed production capacity for the first, the second and the third year of operation, respectively, and 80% (100% for Naxi District) of designed production capacity for the fourth year and thereafter.	70%, 80% and 90% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter.	60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter.	60%, 70% and 80% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter.	60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Responsibilities	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period; and • not dispose of asset without permission.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Terms of termination	Upon expiry of the concession period or early termination upon mutual agreement.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of concession period or in the event of the Group's default, including (amongst others): • asset disposal without permission; • material quality or safety accidents; • cessation of wastewater treatment operation service without permission that affect public interest and safety; or • pledge of assets for borrowings used in projects other than wastewater treatment service under the concession agreement or beyond the concession period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Rights to receive specified assets at the end of the concession period	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group before the concession agreement entered into on 28 April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of concession period will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company
Terms of renewal	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The Group's intangible assets represent operating concession in respect of tap water supply and wastewater treatment service are as follows:

	RMB'000
Cost	
At 1 January 2015	783,130
Addition	488,827
Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed	(98,811)
At 31 December 2015	1,173,146
Addition	367,663
Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed	(389,602)
At 31 December 2016	**1,151,207**
Accumulated amortisation	
At 1 January 2015	(80,561)
Amortisation for the year	(21,693)
At 31 December 2015	(102,254)
Amortisation for the year	(26,809)
At 31 December 2016	**(129,063)**
Carrying amounts	
At 31 December 2016	**1,022,144**
At 31 December 2015	1,070,892

The intangible assets of the Group are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

Included in the intangible assets of the Group as at 31 December 2016 of RMB239.4 million (2015: RMB605.6 million) are intangible assets recognised under service concession arrangements that have yet to be in operation and have been allocated to individual CGUs in tap water supply and wastewater treatment segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the CGUs as at 31 October 2016 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging from 13.7% to 16.8% (as at 31 December 2015: 15.2% to 16.3%). No growth on cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff; CGUs' past performance and management's expectation for the forecast growth in usage of tap water from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable. Based on the above value in use calculations, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2015 and 2016.

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements are as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current portion	**761,901**	386,007
Current portion	**11,294**	4,821
	773,195	390,828
Expected collection schedule is analysed as follows:		
Within one year	**11,294**	4,821
More than one year, but not exceeding two years	**14,493**	5,983
More than two years, but not exceeding three years	**16,821**	6,791
More than three years, but not exceeding four years	**18,325**	7,374
More than four years, but not exceeding five years	**19,163**	7,811
Over five years	**693,099**	358,048
	773,195	390,828

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Given (i) the counterparties in the Group's receivables under service concessions arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments in the past; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment and no impairment in the Group's receivables under service concessions arrangements during the year. While the Directors consider the credit risk is minimal, the collection of receivables under services concession arrangements is closely monitored by the Directors in order to minimise any credit risk associated with the receivables.

18. PREPAID LEASE PAYMENTS

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current portion	**78,141**	77,912
Current portion	**1,637**	1,558
	79,778	79,470

The prepaid lease payments of the Group are held under medium-term leases in the PRC.

19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments represent the following equity investments in unlisted companies in the PRC that do not have quoted market prices in an active market and whose fair values cannot be reliably measured:

		At 31 December	
	Ownership	**2016**	2015
	interests	***RMB'000***	*RMB'000*
At cost			
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.	17.5%	**52,530**	52,530
Others		**1,100**	1,100
		53,630	53,630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

20. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred income tax assets	**5,104**	4,497
Deferred income tax liabilities	**(11,622)**	(10,489)
	(6,518)	(5,992)

The movements in deferred income tax assets and liabilities for the years ended 31 December 2015 and 2016, without taking into account the offsetting of balances within the same tax jurisdiction, are as follows:

	Impairment of trade and other receivables	Provisions	Intangible assets and receivables under service concession arrangements	Revaluation surplus of investment properties	Installation revenue	Others	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note (a))*	*RMB'000*	*RMB'000* *(Note (b))*	*RMB'000*	*RMB'000*
At 1 January 2015	351	14,362	(13,291)	–	(4,183)	(371)	(3,132)
Credit (charge) to profit or loss	109	4,034	(3,768)	–	(1,616)	1,152	(89)
Charge to equity directly	–	–	–	(2,771)	–	–	(2,771)
At 31 December 2015	460	18,396	(17,059)	(2,771)	(5,799)	781	(5,992)
Credit (charge) to profit or loss	(1)	8,913	(7,987)	38	(1,449)	(40)	(526)
At 31 December 2016	**459**	**27,309**	**(25,046)**	**(2,733)**	**(7,248)**	**741**	**(6,518)**

Notes:

(a) The Group's intangible assets and receivables under service concession arrangements are recognised upon the Group paying a specific amount for purchasing the relevant infrastructure or derecognition of its existing property, plant and equipment and prepaid lease payments as infrastructure for providing tap water supply and wastewater treatment service under service concession arrangements.

There are temporary differences between the carrying amounts of the intangible assets and receivables under service concession arrangements and the corresponding tax bases (being the net book value of the infrastructure after deducting the accumulated depreciation) used in the computation of taxable profit.

(b) Certain installation revenue of Jiangnan Water and Naxi Water are taxable over 10 years upon such revenue is recognised that gives rise to deferred tax liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

21. INVENTORIES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**15,871**	15,887
Consumables	**1,063**	1,119
Finished goods	**461**	459
	17,395	17,465

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

The Group's contract works in respect of tap water supply installation service are analysed as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Costs incurred to-date plus recognised profits less recognised losses	**8,470**	7,696
Analysed for reporting purposes as:		
Amounts due from customers for contract works	**8,470**	7,696

23. TRADE RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**85,135**	72,746
Less: Impairment	**(1,418)**	(1,420)
	83,717	71,326

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. TRADE RECEIVABLES *(Continued)*

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for doubtful debts:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**50,661**	54,274
Between 4 months and 6 months	**4,133**	8,294
Between 7 months and 12 months	**2,609**	1,256
Over 1 year	**26,314**	7,502
	83,717	71,326

Trade receivables disclosed below are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Age of trade receivables that are past due but not impaired is analysed as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Overdue by:		
Within 3 months	**6,076**	10,839
Between 4 months and 6 months	**2,609**	1,249
Between 7 months and 12 months	**–**	7
Over 1 year	**26,314**	7,502
	34,999	19,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. TRADE RECEIVABLES *(Continued)*

Movement of the Group's provision for impairment of trade receivables is as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
At the beginning of the year	**1,420**	911
(Reversed) provided during the year	**(2)**	509
At the end of the year	**1,418**	1,420

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of the Reporting Period.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds could be recovered. The Group does not hold any collateral over these balances.

24. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayments for inventories	**4,058**	1,333
Prepayments for prepaid lease payments	**4,000**	4,000
Due from the immediate holding company of the Company	**20**	20
Other receivables	**7,969**	14,146
Deferred listing expenses	**19,178**	2,200
Less: Impairment	**(1,451)**	(1,507)
	33,774	20,192
Less: Amount classified as non-current assets	**(4,000)**	(4,000)
Current assets	**29,774**	16,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

24. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Other receivables mainly include various receivables from governmental bureau for certain construction projects incurred on their behalf and various deposits paid.

The amount due from the immediate holding company of the Company is unsecured, interest-free and is repayable on demand. The amount is non-trade in nature and was settled in February 2017.

Movement of the Group's provisions for impairment of other receivables is as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
At the beginning of the year	**1,507**	1,301
(Reversed) provided during the year	**(56)**	206
At the end of the year	**1,451**	1,507

25. RESTRICTED BANK BALANCE, BANK BALANCES AND CASH

As at 31 December 2016, the restricted bank balance is deposited with a bank for issuing a performance bond.

As at 31 December 2016, the restricted bank balance and bank balances carry interest at prevailing market interest rates ranging from 0.30% to 1.00% per annum (2015: from 0.30% to 1.00% per annum).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

26. BORROWINGS

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unsecured bank borrowings without corporate guarantee *(Note (a))*	**220,000**	130,000
Unsecured bank borrowings with corporate guarantee *(Note (b))*	**260,000**	100,000
Secured bank borrowings *(Note (c))*	**134,000**	134,000
Unsecured other borrowing *(Note (d))*	**5,283**	6,920
Unsecured other borrowing with corporate guarantee *(Note (e))*	**66,000**	–
Unsecured borrowings from the immediate holding company of the Company *(Note (f))*	**–**	120,000
	685,283	490,920
Carrying amount repayable:		
Within one year or on demand	**319,674**	251,412
More than one year, but not exceeding two years	**64,674**	29,724
More than two years, but not more than five years	**165,935**	120,172
More than five years	**135,000**	89,612
	685,283	490,920
Less: Amount shown under current liabilities	**(319,674)**	(251,412)
Non-current portion	**365,609**	239,508
The Group's borrowings are analysed as:		
– At fixed rate	**106,000**	140,000
– At floating rate	**579,283**	350,920
	685,283	490,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

26. BORROWINGS *(Continued)*

Notes:

(a) As at 31 December 2015, included in the unsecured bank borrowings is a bank borrowing of RMB20,000,000 bearing interest at a fixed rate of 4.83% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.57% to 5.36% per annum. These unsecured bank borrowings are repayable from May 2016 to December 2016.

As at 31 December 2016, included in the unsecured bank borrowings is a bank borrowing of RMB10,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.35% to 4.57% per annum. These bank borrowings are repayable from March 2017 to December 2017.

(b) (i) As at 31 December 2015, the unsecured bank borrowing bears interest at a floating rate of 5.64% per annum and its repayment is jointly guaranteed by the Company and its immediate holding company at nil consideration. The unsecured bank borrowing is repayable by installments from June 2017 to December 2021.

(ii) As at 31 December 2016, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000, RMB40,000,000 and RMB90,000,000 bearing interest at a fixed rate of 4.57% per annum, a floating rate of 4.57% per annum and a floating rate of 5.15% per annum, respectively, repayable in May 2017, March 2017 and by instalments till December 2024 and their repayment are guaranteed by the group companies at nil consideration, the remaining bank borrowings represent a bank borrowing with details set out in note (b)(i) above.

(c) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and bear interest at a floating rate of 4.90% per annum as at 31 December 2016. The repayment of these bank borrowings are guaranteed by the Company's immediate holding company at nil consideration. These secured bank borrowings are repayable by installments from December 2017 to December 2030.

(d) The other borrowing represents a borrowing from The World Bank for financing the Group's construction of tap water supply infrastructure that bears interest at floating rates ranging from 0.87% to 1.47% per annum and is repayable by installments till August 2021.

(e) As at 31 December 2016, the other borrowing represent a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., which bears interest at a fixed rate of 1.2% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.

(f) As at 31 December 2015, the unsecured borrowing from the immediate holding company of the Company bore interest at a fixed rate of 8.20% per annum and was fully repaid in April 2016.

(g) As at 31 December 2016, the Group had undrawn banking facilities amounting to RMB521 million which is repayable by installments upon drawn down dates to December 2030.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

27. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**7,599**	4,027
Between 7 months and 12 months	**677**	76
Over 1 year	**2,166**	1,210
	10,442	5,313

The credit period on purchases are generally within 6 months.

28. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Advances from customers	**52,677**	32,678
Wages and welfare payable	**19,731**	18,649
Other taxes payable	**4,116**	6,000
Dividends payable to immediate holding company of the Company	**–**	315
Dividends payable to non-controlling shareholders of subsidiaries	**–**	11
Due to fellow subsidiaries	**–**	864
Construction payables and deposits received	**172,313**	99,097
Payables for purchases of wastewater treatment plants	**9,386**	12,386
Listing expenses payable	**8,196**	–
Payables to governmental bureau	**42,365**	36,489
Other payables	**11,131**	12,213
	319,915	218,702

The above amounts due to the immediate holding company of the Company, fellow subsidiaries, and non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

29. DEFERRED REVENUE

The deferred revenue represents government subsidies granted to the Group for subsidising its construction projects, amongst others, including wastewater treatment plants, tap water supply network, etc.

30. PROVISIONS

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**73,582**	57,447
Provisions recognised	**44,210**	27,415
Unwinding of discount and effect of change in the discount rates	**3,605**	2,815
Payments	**(10,639)**	(14,095)
At end of the year	**110,758**	73,582
Less: Amount classified as current liabilities	**(14,214)**	(10,639)
Non-current portion	**96,544**	62,943

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities to specified level of serviceability and/or to restore the plants to a specified condition during the service concession periods. These contractual obligations to maintain or restore the facilities, except for any upgrade elements, are recognised and measured in accordance with IAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of the Reporting Period. The applicable discount rates as at 31 December 2016 is 4.90% per annum (2015: 4.9% per annum).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

31. PAID-IN CAPITAL/SHARE CAPITAL

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**600,000**	248,286
Capital injections *(Note (a))*	**64,310**	30,424
Conversion into a joint stock company *(Note (b))*	**–**	321,290
At end of the year	**664,310**	600,000

Notes:

(a) In January 2015, the immediate holding company of the Company and a shareholder of the Company, 瀘州老窖集團有限責任公司 ("Luzhou Lao Jiao"), made cash contributions of RMB100,000,000, of which, RMB30,424,000 was credited as paid-in capital of the Company with the remainder credited to capital reserve of the Company.

In July 2015, the immediate holding company of the Company, Luzhou Infrastructure Investment and Luzhou Lao Jiao, shareholders of the Company, made cash contribution of RMB173,980,000, RMB21,624,000 and RMB2,420,000, respectively, which were fully credited to capital reserve of the Company.

In May 2016, 57,290,000 and 7,020,000 new ordinary shares were issued at RMB2.077 to Luzhou Infrastructure Investment and Luzhou Lao Jiao, respectively, of which, RMB64,310,000 and RMB69,270,000 were credited as fully paid-up share capital of the Company and capital reserve of the Company, respectively.

(b) On 25 December 2015, the Company was converted from a limited liability company into a joint stock limited liability company with a registered capital of RMB600,000,000. The Company issued and allotted 600,000,000 ordinary shares with par value of RMB1 each to the respective then shareholders of the Company in accordance with the proportion of their paid-in capitals to the Company as at 25 December 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Name of company	Place and date of establishment/ operation	Equity interest attributable to the Group as at 31 December		Paid-up registered capital	Principal activities
		2015	**2016**		
Beijiao Water	PRC 25 March 2004	64.69%	**86.78%**	RMB43,909,360	Provision of water supply service
Heijiang Water	PRC 26 April 1999	85.93%	**85.93%**	RMB8,639,500	Provision of water supply service
Jiangnan Water*	PRC 7 March 2003	49.96%	**49.96%**	RMB6,520,000	Provision of water supply service
Naxi Water	PRC 17 March 2003	76.64%	**76.64%**	RMB4,380,000	Provision of water supply service
Nanjiao Water*	PRC 18 September 2002	45.79%	**45.79%**	RMB9,766,000	Provision of water supply service
Sitong Engineering	PRC 2 September 2002	79.38%	**79.38%**	RMB5,010,000	Provision of engineering construction service
Sitong Design	PRC 6 September 2002	67.38%	**67.38%**	RMB500,000	Provision of water supply and drainage design service
Xinglu Wastewater Treatment	PRC 11 December 2000	98.00%	**98.00%**	RMB248,000,000	Provision of wastewater treatment service
Luzhou Water Crystal Mall	PRC 23 February 1996	100.00%	**100.00%**	RMB520,000	Sale of materials

* The directors of the Company consider that these entities are controlled by the Company because the Company holds majority voting right in their shareholders' meetings according to agreements with an individual (who has 9.89% and 14.34% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 1 January 2015 to 11 December 2015 and 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 12 December 2015 to 2 February 2016) who agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company. Besides, on 3 February 2016, the Company also entered into agreements with a PRC limited liability partnership (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively, since then and the aforesaid individual transferred his certain equity interests in Jiangnan Water and Nanjiao Water to it on 12 December 2015) which agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company.

The above companies are limited liability companies established in the PRC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Proportion ownership interest held by non-controlling interests At 31 December		Profit allocated to non-controlling interests Year ended 31 December		Accumulated non-controlling interests At 31 December	
	2016	2015	**2016**	2015	**2016**	2015
	%	%	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Beijiao Water	**13.22**	35.31	**81**	3,031	**15,634**	13,615
Hejiang Water	**14.07**	14.07	**1,385**	1,200	**5,509**	4,124
Jiangnan Water	**50.04**	50.04	**9,482**	7,928	**34,444**	24,962
Naxi Water	**23.36**	23.36	**413**	411	**5,429**	5,015
Nanjiao Water	**54.21**	54.21	**433**	322	**7,038**	6,605
Xinglu Wastewater Treatment	**2.00**	2.00	**1,212**	1,015	**10,954**	8,102
Individually immaterial subsidiaries with non-controlling interests			**1,143**	99	**2,481**	1,453
			14,149	14,006	**81,489**	63,876

Changes in ownership interest in subsidiaries

In 2016, the Company acquired additional 22.09% of equity interest in Beijiao Water from non-controlling interests by transferring certain tap water supply infrastructure (included in the Company's intangible assets with carrying amount of RMB80,377,000) to Beijiao Water.

In 2015, the Company acquired additional equity interests in the following subsidiaries from non-controlling interests:

- 0.62% of equity interest in Beijiao Water for a total cash consideration of RMB176,000.
- 0.66% of equity interest in Jiangnan Water for a total cash consideration of RMB148,000.
- 0.14% of equity interest in Naxi Water for a total cash consideration of RMB15,000.
- 1.04% of equity interest in Nanjiao Water for a total cash consideration of RMB119,000.
- 1.00% of equity interest in Sitong Design for a total cash consideration of RMB5,000.

Summarised financial information (prepared in accordance with IFRSs) in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Beijiao Water

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**11,456**	5,983
Non-current assets	**117,692**	39,027
Current liabilities	**3,917**	4,470
Non-current liabilities	**6,970**	1,982
Equity attributable to owners of the Company	**102,627**	24,943
Non-controlling interests	**15,634**	13,615

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**38,950**	36,702
Expenses	**(39,624)**	(28,118)
(Loss) profit for the year	**(674)**	8,584
(Loss) profit and total comprehensive (expense) income attributable to owners of the Company	**(755)**	5,553
Profit and total comprehensive income attributable to non-controlling interests	**81**	3,031
Capital contribution by the Company	**80,377**	–
Dividends declared to non-controlling interests	**–**	1,588
Net cash inflow from operating activities	**9,689**	24,203
Net cash outflow from investing activities	**(989)**	(154)
Net cash outflow from financing activities	**(3,000)**	(24,716)
Net cash inflow (outflow)	**5,700**	(667)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Hejiang Water

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**40,924**	31,511
Non-current assets	**43,473**	35,146
Current liabilities	**28,538**	21,445
Non-current liabilities	**16,705**	15,900
Equity attributable to owners of the Company	**33,645**	25,188
Non-controlling interests	**5,509**	4,124

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**43,378**	28,526
Expenses	**(33,536)**	(19,997)
Profit for the year	**9,842**	8,529
Profit and total comprehensive income attributable to owners of the Company	**8,457**	7,329
Profit and total comprehensive income attributable to non-controlling interests	**1,385**	1,200
Dividends declared to non-controlling interests	**–**	96
Net cash inflow from operating activities	**16,416**	2,212
Net cash (outflow) inflow from investing activities	**(2,842)**	1,043
Net cash outflow from financing activities	**–**	(6,266)
Net cash inflow (outflow)	**13,574**	(3,011)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Jiangnan Water

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**46,041**	28,706
Non-current assets	**69,880**	69,917
Current liabilities	**38,222**	42,757
Non-current liabilities	**8,867**	5,982
Equity attributable to owners of the Company	**34,388**	24,922
Non-controlling interests	**34,444**	24,962

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**49,444**	45,872
Expenses	**(30,496)**	(30,028)
Profit for the year	**18,948**	15,844
Profit and total comprehensive income attributable to owners of the Company	**9,466**	7,916
Profit and total comprehensive income attributable to non-controlling interests	**9,482**	7,928
Dividends declared to non-controlling interests	**–**	114
Net cash inflow from operating activities	**21,029**	22,741
Net cash outflow from investing activities	**(3,547)**	(1,239)
Net cash outflow from financing activities	**(14,820)**	(6,110)
Net cash inflow	**2,662**	15,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Naxi Water

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**11,674**	8,293
Non-current assets	**41,085**	37,214
Current liabilities	**25,274**	20,783
Non-current liabilities	**4,246**	3,254
Equity attributable to owners of the Company	**17,810**	16,455
Non-controlling interests	**5,429**	5,015

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**26,951**	23,367
Expenses	**(25,182)**	(21,609)
Profit for the year	**1,769**	1,758
Profit and total comprehensive income attributable to owners of the Company	**1,356**	1,347
Profit and total comprehensive income attributable to non-controlling interests	**413**	411
Dividends declared to non-controlling interests	**–**	–
Net cash inflow from operating activities	**4,296**	3,013
Net cash outflow from investing activities	**(2,317)**	(1,418)
Net cash outflow from financing activities	**(326)**	(454)
Net cash inflow	**1,653**	1,141

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Nanjiao Water

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**4,294**	2,730
Non-current assets	**16,445**	13,328
Current liabilities	**6,618**	2,494
Non-current liabilities	**1,139**	1,380
Equity attributable to owners of the Company	**5,944**	5,579
Non-controlling interests	**7,038**	6,605

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**19,545**	17,098
Expenses	**(18,747)**	(16,507)
Profit for the year	**798**	591
Profit and total comprehensive income attributable to owners of the Company	**365**	269
Profit and total comprehensive income attributable to non-controlling interests	**433**	322
Dividends declared to non-controlling interests	**–**	132
Net cash inflow from operating activities	**2,459**	1,690
Net cash outflow from investing activities	**(3,973)**	(115)
Net cash inflow (outflow) from financing activities	**1,852**	(484)
Net cash inflow	**338**	1,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. PARTICULARS OF THE COMPANY'S SUBSIDIARIES *(Continued)*

Xinglu Wastewater Treatment

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current assets	**955,343**	204,443
Non-current assets	**172,373**	797,406
Current liabilities	**216,170**	229,552
Non-current liabilities	**363,828**	367,177
Equity attributable to owners of the Company	**536,764**	397,018
Non-controlling interests	**10,954**	8,102

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**306,467**	380,340
Expenses	**(245,871)**	(329,556)
Profit for the year	**60,596**	50,784
Profit and total comprehensive income attributable to owners of the Company	**59,384**	49,769
Profit and total comprehensive income attributable to non-controlling interests	**1,212**	1,015
Capital contribution by the Company	**80,362**	176,400
Capital contribution by a non-controlling shareholder	**1,640**	3,600
Dividends declared to non-controlling interests	**–**	316
Net cash inflow from operating activities	**172,450**	89,651
Net cash outflow from investing activities	**(158,058)**	(207,238)
Net cash (outflow) inflow from financing activities	**(35,432)**	226,300
Net cash (outflow) inflow	**(21,040)**	108,713

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

Net debts to equity ratio

The Group's management reviews the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with the capital.

The net debts to equity ratio of the Group at the end of the Reporting Period was as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Debts	**685,283**	490,920
Less: Restricted bank balance, bank balances and cash	**(531,569)**	(289,309)
Net debts	**153,714**	201,611
Total equity	**1,371,273**	1,095,257
Net debts to equity ratio	**11.2%**	18.4%

Notes:

1. Debts comprise long-term and short-term borrowings as detailed in note 26.

2. Total equity includes all capital and reserves attributable to the owners of the Company and non-controlling interests.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables	**1,395,019**	764,122
Available-for-sale investments	**53,630**	53,630
Financial liabilities		
Amortised costs	**958,847**	676,257

Financial risk management objectives and policies

The Group's major financial instruments include receivables under service concession arrangements, available-for-sale investments, other financial assets, trade and other receivables (including amount due from the immediate holding company of the Company), restricted bank balance, bank balances and cash, trade and other payables (including amounts due to immediate holding Company of the Company, fellow subsidiaries and non-controlling shareholders of subsidiaries) and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's operations expose it to a number of financial risks; principally interest rate risk, foreign currency risk, the liquidity risk and the credit risk. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed interest rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets (mainly restricted bank balance and bank balances which carried at prevailing market interest rates) and borrowings bearing at floating rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing restricted bank balance, bank balances and borrowings at the end of the Reporting Period and assumed that these amounts outstanding at the end of the reporting period was outstanding for the whole relevant year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Interest rate risk (Continued)

If interest rates on restricted bank balance, bank balances and borrowings had been 10 basis points higher, and all other variables were held constant, the potential effect on post-tax results is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Decrease in post-tax profit	**41**	52

There would be an equal and opposite impact on the above post-tax results, should interest rates on restricted bank balance, bank balances and borrowings had been 10 basis points lower in the above sensitivity analysis.

Foreign currency risk

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group had a borrowing from The World Bank that is US$ denominated. The Group does not currently hedge its exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise.

The carrying amounts of the Group's foreign currency denominated monetary liabilities at the end of the reporting period are as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Borrowings – US$	**5,283**	6,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk (Continued)

The following table details the Group's sensitivity to five percent appreciation of US$ against RMB which represents the management's assessment of the reasonable possible change in US$-RMB exchange rate. The sensitivity analysis of the Group includes the outstanding US$ denominated borrowing as adjusted for five percent appreciation of US$ at the end of the reporting period.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Decrease in post-tax profit	**225**	294

There would be an equal and opposite impact on the above post-tax results, should the US$ be weakened against RMB in the above sensitivity analysis.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and receivable under service concession arrangement at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The Group's credit risk is primarily attributable to its trade receivables and receivables under service concession arrangements. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on restricted bank balance and bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has concentration of credit risk because 79.3% (2015: 62.7%) of total trade receivables and receivables under service concession arrangements as at 31 December 2016 were due from the two largest customers as set out in note 7.

Liquidity risk

As detailed in note 2, the Group had net current liabilities of RMB1,594,000 (2015: RMB115,332,000) as at 31 December 2016. In the management of liquidity risk, the Group's management prepares forecast for future cash requirements that takes into account of the operating cash flows, the liquidity risk tables below and future capital commitments aiming at keeping the Group's operation with sufficient cash to meet the liabilities due at any time. Based on such forecast, should the Group require additional cash to fund its operation/expansion projects, the Group's management decide to obtain additional banking borrowings or additional capital. Details of the bank borrowings and capital of the Group during the year have been set out in notes 26 and 31, respectively. As at 31 December 2016, the Group had unutilised banking facilities amounting to RMB521 million which is repayable by installments upon drawn down dates to December 2030.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Less than 6 months and on demand	6 months to 1 year	1 to 2 years	More than 2 years	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016							
Borrowings							
– Fixed rate	**2.45%**	**31,081**	**10,596**	**803**	**76,019**	**118,499**	**106,000**
– Variable rate	**4.87%**	**205,397**	**95,691**	**80,243**	**262,482**	**643,813**	**579,283**
Trade and other payables		**238,733**	**34,831**	**–**	**–**	**273,564**	**273,564**
		475,211	**141,118**	**81,046**	**338,501**	**1,035,876**	**958,847**
At 31 December 2015							
Borrowings							
– Fixed rate	7.72%	122,014	20,209	–	–	142,223	140,000
– Variable rate	5.04%	59,400	68,064	41,667	240,750	409,881	350,920
Trade and other payables		143,096	42,241	–	–	185,337	185,337
		324,510	130,514	41,667	240,750	737,441	676,257

Fair value measurements

The Directors consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

35. OPERATING LEASES

As lessee

As at 31 December 2016, the Group had commitments for future minimum lease payments under a non-cancellable operating lease in respect of properties which fall due as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within one year	**12**	16

As lessor

Property rental income earned by the Group was RMB1,069,000 (2015: RMB938,000) for the year ended 31 December 2016.

All of the Group's investment properties are held for rental purposes. They are expected to generate rental on an ongoing basis. All of the properties held have committed tenants for the next 1 to 5 years.

As at 31 December 2016, the Group had contracted with tenants for the following future minimum lease payments:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within one year	**141**	1,078
In the second to fifth year, inclusive	**338**	12
	479	1,090

36. CAPITAL COMMITMENTS

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Capital expenditure contracted but not provided for constructing and upgrading infrastructure	**163,440**	318,451

37. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2015 and 2016, the Group had the following major non-cash transactions:

(a) As disclosed in note 17, during the years ended 31 December 2015 and 2016, respectively, the construction of certain infrastructure of the Group were completed and put into wastewater treatment operation and obtained additional minimum wastewater volume guaranteed. As such, the amounts of RMB98,811,000 and RMB389,602,000 in relation to the aforesaid infrastructure included in the Group's intangible assets were transferred to receivables under service concession arrangements that are non-cash transactions.

(b) As disclosed in note 32, in 2016, the Company acquired additional 22.09% of equity interest in Beijiao Water from non-controlling interests by transferring certain tap water supply infrastructure at carrying amount of RMB80,377,000 to Beijiao Water that is a non-cash transaction.

38. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

During the year, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, wastewater treatment operating services, construction and other services. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its pricing strategy and approval process for purchase and sales of products and services. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

38. RELATED PARTY TRANSACTIONS *(Continued)*

Other than the transactions and balances with related parties disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with the Company's immediate holding company, fellow subsidiaries and other related parties during the year:

			Year ended 31 December	
	Notes	**Related parties**	**2016** **RMB'000**	2015 *RMB'000*
Tap water supply	(i)	Shareholders and fellow subsidiaries	**2,008**	1,025
Installation service income received	(ii)	Shareholders and fellow subsidiaries	**14,211**	10,622
Water quality testing income	(iii)	A shareholder and fellow subsidiaries	**285**	–
Property management fees	(iv)	A fellow subsidiary	**(3,215)**	(2,802)
Interest expense	(v)	Immediate holding company of the Company	**(2,568)**	(21,335)
	(v)	A shareholder	**–**	(1,374)
Sales of properties	(vi)	A fellow subsidiary	**564**	–
Sales of investment properties	(vi)	Fellow subsidiaries	**2,754**	–
Sales of prepaid lease payments	(vi)	A fellow subsidiary	**724**	–
Purchases of properties	(vi)	A fellow subsidiary	**(525)**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

38. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) Tap water supply was conducted in accordance with the relevant agreements.

(ii) Installation service income was conducted in accordance with the terms of relevant agreements.

(iii) Water quality testing income was conducted in accordance with the terms of relevant agreements.

(iv) Property management fees were conducted in accordance with the terms of relevant agreements.

(v) Interest expense arose from borrowings from the Company's immediate holding company and a shareholder. Further details of these borrowings are set out in note 26.

(vi) These transactions were conducted in accordance with the terms of relevant agreements.

In addition to the above, the Group also had the following transactions with related parties:

(a) During the year ended 31 December 2015, the immediate holding company of the Company provided guarantees to banks, at nil consideration, for granting borrowings to the Group. Further details are set out in note 26.

(b) During the years ended 31 December 2015 and 2016, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

(c) The details of remuneration of key management personnel, representing emoluments of the Directors and supervisors, are set out in note 12.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At December 31	
	2016	2015
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**18,482**	21,269
Investment properties	**–**	694
Intangible assets	**654,871**	555,585
Prepaid lease payments	**11,803**	12,150
Prepayments for prepaid lease payments	**4,000**	4,000
Available-for-sale investments	**53,630**	53,630
Investments in subsidiaries	**542,949**	382,212
Deferred income tax assets	**–**	483
	1,285,735	1,030,023
CURRENT ASSETS		
Inventories	**8,117**	6,930
Amounts due from customers for contract works	**15,032**	2,586
Trade receivables	**20,423**	14,526
Prepaid lease payments	**260**	168
Prepayments and other receivables	**43,311**	27,019
Bank balances and cash	**336,422**	101,724
	423,565	152,953
CURRENT LIABILITIES		
Borrowings	**221,174**	131,412
Trade payables	**7,693**	3,736
Advances from customers and other payables	**182,573**	71,339
Provisions	**12,103**	10,012
Current income tax liabilities	**7,516**	27,189
	431,059	243,688
NET CURRENT LIABILITIES	**(7,494)**	(90,735)
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,278,241**	939,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

	At December 31	
	2016	2015
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital/Paid-in capital	**664,310**	600,000
Reserves	**420,156**	304,814
TOTAL EQUITY	**1,084,466**	904,814
NON-CURRENT LIABILITIES		
Borrowings	**160,109**	5,508
Deferred revenue	**16,281**	13,669
Provisions	**17,156**	15,297
Deferred income tax liabilities	**229**	–
	193,775	34,474
	1,278,241	939,288

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Movements of the Company's reserves

	Capital reserve *RMB'000*	**Statutory surplus reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2015	154,572	23,871	114,601	293,044
Profit and total comprehensive income for the year	–	–	77,636	77,636
Appropriation for the year	–	6,088	(6,088)	–
Dividend declared	–	–	(12,176)	(12,176)
Capital contribution by shareholders	267,600	–	–	267,600
Conversion into a joint stock company	(255,866)	(28,002)	(37,422)	(321,290)
At 31 December 2015	**166,306**	**1,957**	**136,551**	**304,814**
Profit and total comprehensive income for the year	**–**	**–**	**46,072**	**46,072**
Appropriation for the year	**–**	**4,061**	**(4,061)**	**–**
Capital contribution by shareholders	**69,270**	**–**	**–**	**69,270**
At 31 December 2016	**235,576**	**6,018**	**178,562**	**420,156**

40. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the consolidated financial statements, in February 2017, a subsidiary of the Company obtained an unsecured bank borrowing of RMB10,000,000 which bears interest at a floating rate of 4.79% per annum and is repayable in February 2018. The repayment of this bank borrowing is guaranteed by another subsidiary of the Company.