



**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

**W** **A** **T** **E** **R**

**Agreement**

**Resonance**

**Travel**

**Enjoy**

**Win-win**

**2017**  
**Annual Report**

\* For identification purposes only



# CONTENTS

Chapter I	Corporate Information	2
Chapter II	Definitions	4
Chapter III	Chairman's Statement	8
Chapter IV	Financial Highlights	11
Chapter V	Management Discussion and Analysis	13
Chapter VI	Directors, Supervisors and Senior Management	29
Chapter VII	Directors' Report	42
Chapter VIII	Supervisory Committee's Report	64
Chapter IX	Corporate Governance Report	69
Chapter X	Environmental, Social and Governance Report	83
Chapter XI	Independent Auditor's Report	125
	Consolidated Statement of Profit or Loss and Other Comprehensive Income	131
	Consolidated Statement of Financial Position	132
	Consolidated Statement of Changes In Equity	134
	Consolidated Statement of Cash Flows	135
	Notes to the Consolidated Financial Statements	137

# CHAPTER I 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. Yang Ronggui (楊榮貴先生) (resigned on 12 September 2017)  
Mr. Chen Bing (陳兵先生)  
Ms. Xu Yan (徐燕女士)  
Mr. Xie Xin (謝欣先生) (appointed on 12 September 2017)

### 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 Qi (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. Xie Xin (謝欣先生)

## 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



## CHAPTER I CORPORATE INFORMATION (Continued)

### LEGAL ADVISER:

#### **As to Hong Kong law:**

Luk & Partners  
In Association with Morgan, Lewis & Bockius  
Suites 1902-09, 19/F  
Edinburgh Tower, The Landmark  
15 Queen's Road Central  
Hong Kong

#### **As to PRC law:**

Jia Yuan Law Offices  
F408, Level 4, Ocean Plaza  
158 Fuxing Men Nei Avenue  
Xicheng District  
Beijing

### 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](http://www.lzss.com)



## CHAPTER II 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 convened by the Company on 15 June 2018, 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 of the Company
“Director(s)”	the director(s) of the Company
“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
“the Company” or “the Group” or “us” or “we”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), converted by Xinglu Water Company Limited (a limited liability company established on 31 July 2002) on 25 December 2015, which includes its predecessor and subsidiaries as required by the context
“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
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“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 Hong Kong Stock Exchange
“HKD” or “HK\$”	the lawful currency of Hong Kong
“US\$”	the lawful currency of the United States of America

## CHAPTER II DEFINITIONS (Continued)

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRSs”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IPO”	the initial public offering of the Company’s H Shares through the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Listing Date”	31 March 2017, being the date on which the H Shares of the Company were listed on the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Xinglu Water Company Limited”	the predecessor of the Company
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a PRC limited liability company established on 11 December 2000, a non-wholly-owned subsidiary of the Company
“Nanjiao Water”	Luzhou Nanjiao Water Co., Ltd.* (瀘州市南郊水業有限公司), a PRC limited liability company established on 18 September 2002, a non-wholly-owned subsidiary of the Company
“Beijiao Water”	Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.* (瀘州市興瀘水務(集團)北郊水業有限公司), a PRC limited liability company established on 25 March 2004, a non-wholly-owned subsidiary of the Company
“Jiangnan Water”	Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.* (瀘州市興瀘水務集團江南水業有限公司), a PRC limited liability company established on 7 March 2003, a non-wholly-owned subsidiary of the Company
“Naxi Water”	Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.* (瀘州市興瀘水務(集團)納溪水業有限公司), a PRC limited liability company established on 17 March 2003, a non-wholly-owned subsidiary of the Company



## CHAPTER II DEFINITIONS (Continued)

“Hejiang Water”	Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.* (瀘州市興瀘水務(集團)合江水業有限公司), a PRC limited liability company established on 26 April 1999, a non-wholly-owned subsidiary of the Company
“Sitong Design”	Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.* (瀘州市四通排水設計有限公司), a PRC limited liability company established on 6 September 2002, a non-wholly-owned subsidiary of the Company
“Sitong Engineering”	Luzhou Sitong Tap Water Engineering Co., Ltd.* (瀘州市四通自來水工程有限公司), a PRC limited liability company established on 2 September 2002, a non-wholly-owned subsidiary of the Company
“Crystal Mall”	Luzhou Xinglu Water (Group) Crystal Mall Co., Ltd.* (瀘州市興瀘水務(集團)水晶商場有限公司), a PRC limited liability company established on 23 February 1996, a non-wholly-owned subsidiary 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), a PRC limited liability company established on 28 January 2003, our Controlling Shareholder
“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, one of our Shareholders
“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, one of our Shareholders
“Beijing Enterprises Water Group”	Beijing Enterprises Water Group Limited (北控水務集團有限公司), one of our Shareholders, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 371)
“Qiancao Supply Plant II”	the tap water supply plant operated by us in Jiangyang District of Luzhou urban area
“Nanjiao Supply Plant II”	the tap water supply plant operated by us in Jiangyang District of Luzhou urban area
“Naxi Treatment Plant”	the wastewater treatment plant operated by us in Naxi District of Luzhou urban area

## CHAPTER II DEFINITIONS (Continued)

“Prospectus”	the prospectus dated 21 March 2017 in relation to the IPO
“Reporting Period”	the twelve months ended 31 December 2017
“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), as amended, supplemented or otherwise modified from time to time
“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)
“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
“%”	per cent
“Chengdong Wastewater Treatment Plant”	the wastewater treatment plant that we are currently operating in Longmatan District of Luzhou urban area
“Chengnan Wastewater Treatment Plant”	the wastewater treatment plant that we are currently operating in Jiangyang District of Luzhou urban area
“Tax Relief and 50% Tax Reduction for the First Six Years”	According to Article 88 of Regulation for Implementation of Enterprise Income Tax (“EIT”) of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant and Chengnan Wastewater Treatment Plant, are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation

\* For identification purposes only



## CHAPTER III CHAIRMAN'S STATEMENT

Innovation for excellence,  
struggling for presence in  
Hong Kong; Harmony between  
human and water, developing  
cohesion and delectation in  
Luzhou.

Zhang Qi  
Chairman of the Board





## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

Dear Shareholders:

I hereby present the annual report of Luzhou Xinglu Water (Group) Co., Ltd. for the year ended 31 December 2017 on behalf of the board of directors of the Company.

2017 was the year when the share listing strategy of the Company was implemented. With the support of all Shareholders, under the guidance of the intermediary and with the joint efforts of its employees, the Company was successfully listed on the main board of the Hong Kong Stock Exchange on 31 March 2017 and achieved financing of approximately HK\$494 million (gross proceeds), laying a solid capital foundation for sustainable development of the Company. Since its listing, the Company has been focusing on business expansion and cost reduction and efficiency enhancement, optimizing water supply and drainage regions, improving the level of management and making efforts to build core competitiveness, which contributed to the steady growth of the Company's revenue.

### BUSINESS REVIEW

For the year ended 31 December 2017, the Company recorded a total revenue of approximately RMB1,081.7 million, representing an increase of 29.4% as compared to RMB836.2 million for the year ended 31 December 2016; total profits of approximately RMB142.7 million for the year, representing an increase of 1.3% as compared to RMB140.8 million for the year ended 31 December 2016; basic earnings per share was RMB0.16. The Board resolved to recommend the distribution of final dividends of RMB0.08 per share (tax inclusive) to the shareholders for their long-term support for the Company.

For 2017, the Company spared no efforts to guarantee water supply and focused on the construction of key projects, with a number of engineering construction tasks completed. At the end of the Reporting Period, the water supply capacity of the Company reached 425,500 tonnes per day, representing an increase of 51.7% as compared to 280,500 tonnes per day for the year ended 31 December 2016; the sewage treatment capacity reached 261,000 tonnes per day, which is the same as for the year ended 31 December 2016.

### BUSINESS EXPANSION

By closely following the rural water supply market, the Company focused on promoting the implementation of the whole-region water supply. The newly developed rural users were 48,966, which injected a strong driving force for the development of the Company.



## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

### CORPORATE GOVERNANCE

By closely focusing on its strategic objectives, the Company further optimized its governance structure, optimized management process, optimized human resources management strategy, and strengthened risk management and control functions, so as to provide systematic guarantee for quality development of the Company.

The Company was recommended as the pilot company for the national district metered area (DMA) system by proactively implementing the smart water strategy, initiating measurement and management of water supply by regions, and strengthening the capabilities of water supply network detection, surveying, mapping and leak detection; the Company also improved labour efficiency, proactively promoted the management of unattended pumping stations; advanced the wastewater treatment upgrading and capacity expansion project, explored new technologies and processes for the comprehensive utilization of water resources, and focused on building core technologies to achieve sustainable development.

### FUTURE PROSPECT

By upholding the core values of innovation and excellence and human-water harmony, with the business philosophy of “win-win, consensus, joint development, sharing, resonance”, the purpose to become “the most trusted integrated water service provider”, and the objective to gain the trust of Shareholders, government, users and employees, as well as by taking “work style transformation, efficiency improvement, implementation enhancement, quality guarantee” as the means, the Company will pay close attention to the national environmental protection policies and industry development trends, further optimize the strategic objective of the Company, adjust the industrial structure of the Company, expand business market, widen financing channels, actively participate in the development and operation of the water resources industry, and focus on environmental protection industry to promote diversified operating strategies of the Company.

The Company will keep a close eye on the national environmental protection strategy and the rural revitalization strategy, further strengthen cooperation with universities or high-tech environmental protection companies, and conduct research on environmental protection technologies such as sludge treatment, garbage disposal, water environmental treatment, etc., striving to create competitiveness of the Company, so as to promote sustainable development of the Company and make efforts to bring rich returns to Shareholders.

### ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to all shareholders and partners for their continuous trust and support for the development of the Company, and to thank all the colleagues of the Company for their hard work and contributions.

**Zhang Qi**  
*Chairman of the Board*  
Luzhou, the PRC  
28 March 2018

## CHAPTER IV FINANCIAL HIGHLIGHTS

The Board is pleased to announce the following financial highlights:

### 4.1 CONSOLIDATED RESULTS

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	<b>1,081,744</b>	836,191	911,896	628,983	409,798
Profit before tax	<b>163,169</b>	165,812	170,352	136,719	105,833
Income tax expense	<b>(20,480)</b>	(25,016)	(25,934)	(21,187)	(17,880)
Profit for the year	<b>142,689</b>	140,796	144,418	115,532	87,953
Profit and total comprehensive income for the year attributable to:					
– Owners of the Company	<b>131,298</b>	126,647	130,412	100,386	73,894
– Non-controlling interests	<b>11,391</b>	14,149	14,006	15,146	14,059
	<b>142,689</b>	140,796	144,418	115,532	87,953
Return on average equity <sup>(1)</sup>	<b>8.8%</b>	11.4%	16.5%	20.4%	18.2%
Basic earnings per share (RMB)	<b>0.16</b>	0.20	0.22	0.25	0.19

Note:

- (1) Return on average equity equals profit for the year divided by the average balance of total equity at the beginning and end of the period and multiplied by 100%.



## CHAPTER IV FINANCIAL HIGHLIGHTS (Continued)

### 4.2 CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 December				
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Total assets	<b>3,264,816</b>	2,659,137	2,059,228	1,433,324	1,033,326
Total liabilities	<b>(1,386,900)</b>	(1,287,864)	(963,971)	(777,339)	(558,403)
Total equity	<b>1,877,916</b>	1,371,273	1,095,257	655,985	474,923
Equity attributable to owners of the Company	<b>1,786,240</b>	1,289,784	1,031,381	606,808	431,035
Non-controlling interests	<b>91,676</b>	81,489	63,876	49,177	43,888
	<b>1,877,916</b>	1,371,273	1,095,257	655,985	474,923

# CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

## 5.1 INDUSTRY OVERVIEW

Looking into the 13th Five Year Plan period, water consumption is expected to grow year on year as China's urbanisation picks up steam. China now has 661 cities and over 2,000 water supply plants, with the asset value totaling RMB500 billion. Tap water supply companies in each city have limited supply capacity, and their market shares are limited to local water demands. Regional businesses of these water supply companies are operated on decentralisation basis. Under such backdrop, water investment companies are open to plenty of opportunities for strategic merger and acquisition during the 13th Five Year Plan period. In addition, the Ministry of Environmental Protection of the PRC plans to build 677 wastewater treatment plants during the 13th Five Year Plan period, due to which, funds of RMB300 billion will flow into construction of wastewater treatment facilities. Given these factors, China is expected to see tremendous potential demands in the water supply and wastewater treatment market, and the water industry is expected to have a promising outlook with greater importance.

As the economy develops rapidly, and the urbanisation is promoted, national demands for water supply and drainage continue to grow, and there is an urgent need to address pollution issues. Judging from its scale and growth rate, the water supply segment is now in the mature development stage; the wastewater treatment segment is now in the fast growth stage, while the reclaimed water utilisation segment is still in the introduction stage. Water recycling is playing a greater role in easing supply and demand tensions, which provides the reclaimed water segment with tremendous development opportunities. In a bid to ensure sustainable development, both the state and local governments roll out policies about development objectives, industry regulation, financing ways, tax incentives and technology innovation, which create a favourable environment for the development of the industry.

Furthermore, the 28th meeting of the Standing Committee of the 12th National People's Congress held on 27 June 2017 completed the second revision of "Decision on Amending the Law of the People's Republic of China on Water Pollution Prevention and Control" (referred to as the "New Law"), stipulating that the New Law has taken effect on 1 January 2018. The New Law has a stricter supervision standard and sets rigid rules on both companies and regulatory departments. It is imperative for water companies with operating projects to promote optimisation and upgrade. There is a great market for improving and upgrading obsolete facilities and equipment.

While the integrated management of water resource and the concept of sustainable utilisation are promoted, there is a great leeway for water price to improve. It is expected that the government pricing system will shift to the market-oriented pricing system, and development plans for the water industry during the 13th Five Year Plan period will include diversity of investors, further development of market-oriented capital operation, urban-rural integration and regional coordination of water supply, regional consolidation of water resources and intensive utilisation of regional infrastructure, application of geographic information system (GIS), global positioning system (GPS) and remote sensing (RS) integration, information-based operation of water affairs and resource sharing.



### 5.2 DEVELOPMENT STRATEGY AND OUTLOOK

In 2018, the Company will prioritise the ideology-driven transformation and development as the core task, and will follow the guideline of “work style reform, efficiency improvement, execution strengthening and quality assurance”. It will align its development and future plans with external environment changes and industry characteristics, and optimize the Company’s strategies, water supply and drainage segments, business structure and financing channels. While actively participating in the construction and development of water resources industry, the Company will adopt the approach that “leverage the key segment to build a well-structured network”, and gradually develop other regional markets of water supply and drainage, thus realising cross-region development and diversified business operation.

The Company will build a business pattern comprising “one staple, two supplements and three sidelines”. Focusing on the water supply and drainage, the Company will seek vertical and horizontal development in the industry chain and improve its market expansion capabilities in water supply and drainage design, construction and operation of piping network, measurement technology, sludge treatment and technology consultation on water supply and drainage. While vigorously promoting the construction of smart enterprise, it will grow the supplements and sidelines into stronger segments.

The Company will innovate on its management style, control cost by leveraging technology innovation and explore new core technologies of the water industry relentlessly. It will collaborate with research teams of universities to initiate projects on water environment treatment, sludge treatment and garbage disposal. By doing so, the Company will cultivate its new core competitiveness, which will be conducive to the sustainable development of the Company and help the Company to grow into nationally leading and integrated water service provider with reasonable structure, efficient management and standardised operation.

### 5.3 BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, principally engaged in tap water supply and wastewater treatment in Luzhou area. We adopt project models of build-own-operate (“BOO”) and transfer-own-operate (“TOO”) in the course of business, where we and local governments enter into concession agreements for a normal period of 30 years.

As at the end of the Reporting Period, we operated eight tap water plants with a total supply capacity of approximately 425,500 tons per day and nine wastewater treatment plants with a total treatment capacity of 261,000 tons per day.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.3.1 Tap Water Business

As at the end of the Reporting Period, the Group owned eight tap water plants with a daily supply capacity of approximately 425,500 tons in aggregate, representing an addition of two plants and approximately 145,000 tons of daily supply capacity in aggregate from that as at 31 December 2016. The average utilisation of tap water plants of the Company during the Reporting Period stood at 84.2%. Benefiting from population and economic growth of Luzhou, total sales of water increased by 15.3% from approximately 82.4 million tons for the year ended 31 December 2016 to approximately 95.0 million tons for the Reporting Period. Total number of end users of tap water increased from approximately 262,730 as at 31 December 2016 to 335,703 as of the end of the Reporting Period. Qiancao Supply Plant II with designed capacity of 95,000 tons per day has been in trial operation in December 2017.

### 5.3.2 Wastewater Treatment Project

As at the end of the Reporting Period, we owned nine operating wastewater treatment plants with a daily wastewater treatment capacity of approximately 261,000 tons in aggregate. The average load rate of wastewater treatment plants stood at 63.3% during the Reporting Period. Wastewater treatment capacity increased by 23.8% from approximately 48.7 million tons for the year ended 31 December 2016 to approximately 60.3 million tons for the Reporting Period.

## 5.4 FINANCIAL REVIEW

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

#### 5.4.1.1 Revenue

Revenue of the Group increased by 29.4% from RMB836.2 million for the year ended 31 December 2016 to RMB1,081.7 million for the Reporting Period.

##### 5.4.1.1.1 Tap water supply

###### Sales of tap water

Revenue of the Group generated from sales of tap water increased by 15.6% from RMB179.4 million for the year ended 31 December 2016 to RMB207.4 million for the Reporting Period. Such increase was primarily due to a growth in the sales volume from approximately 82.4 million tons for the year ended 31 December 2016 to approximately 95.0 million tons for the Reporting Period. Revenue generated from sales of tap water accounted for 21.4% and 19.2% of our total revenue for the years ended 31 December 2016 and 2017, respectively.



### Installation and maintenance services

Revenue of the Group generated from installation and maintenance services increased by 58.5% from RMB136.1 million for the year ended 31 December 2016 to RMB215.8 million for the Reporting Period. Such increase was mainly due to the increase in completed installation projects for residential users during the Reporting Period. Revenue generated from installation and maintenance service accounted for 16.3% and 19.9% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

### Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure increased by 111.1% from RMB214.2 million for the year ended 31 December 2016 to RMB452.2 million for the Reporting Period. Such increase was mainly due to the increase in the amount of upgrade works for Qiancao Supply Plant II and the operational projects of water supply pipeline network for the Reporting Period.

#### *5.4.1.2 Wastewater treatment*

### Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 20.5% from RMB125.9 million for the year ended 31 December 2016 to RMB151.7 million for the Reporting Period. Such increase was primarily due to the increase in the Group's wastewater treatment capacity as the Company was entitled to a guaranteed minimum treatment tariff after trial operation commenced upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, both of which maintained formal operation during 2017. The total treatment volume was 48.7 million tons and 60.3 million tons for the years ended 31 December 2016 and 2017, respectively. Revenue generated from wastewater treatment operation accounted for 15.1% and 14.0% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

### Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 31.3% from RMB27.2 million for the year ended 31 December 2016 to RMB35.7 million for the Reporting Period. Such increase was mainly due to the improvement in wastewater treatment capacity and the entitlement to a guaranteed minimum treatment tariff after trial operation commenced upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, both of which maintained formal operation during 2017.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure decreased by 87.6% from RMB153.4 million for the year ended 31 December 2016 to RMB19.0 million for the Reporting Period. Such decrease was mainly due to the decrease of the revenue from construction and upgrade of Chengdong Treatment Plant and Chengnan Treatment Plant because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016.

### 5.4.1.2 Cost of sales and services

The Group's cost of sales and services increased by 33.2% from RMB621.6 million for the year ended 31 December 2016 to RMB828.3 million for the Reporting Period.

#### 5.4.1.2.1 Tap water supply

##### Sales of tap water

The Group's cost of sales and services associated with sales of tap water increased by 24.9% from RMB146.5 million for the year ended 31 December 2016 to RMB182.9 million for the Reporting Period. Such increase was primarily due to the significant increase in maintenance expenses of water supply plants for the year. Cost of sales and services from tap water supply operations accounted for 23.6% and 22.1% of our total cost of sales and services for the years ended 31 December 2016 and 2017, respectively.

##### Installation and maintenance services

The Group's cost of sales and services associated with installation and maintenance services increased by 129.2% from RMB36.5 million for the year ended 31 December 2016 to RMB83.7 million for the Reporting Period. Such increase was mainly due to the increase in the volume of installation and maintenance work we undertook and the rising material and equipment costs.

##### Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services associated with construction and upgrade on tap water supply infrastructure increased by 111.1% from RMB213.7 million for the year ended 31 December 2016 to RMB451.2 million for the Reporting Period. Such increase was mainly due to the increase in the amount of construction works for Qiancao Supply Plant II and the operational projects of water supply pipeline network during the Reporting Period.



### *5.4.1.2 Wastewater treatment*

#### Operating service

The Group's cost of sales and services from wastewater treatment operating services increased by 27.7% from RMB71.6 million for the year ended 31 December 2016 to RMB91.5 million for the Reporting Period. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016 upon the completion of construction and the formal operation during 2017. Cost of sales and services from wastewater treatment operating services accounted for 11.5% and 11.0% of our total cost of sales and services for the years ended 31 December 2016 and 2017, respectively.

#### Construction and upgrade on wastewater treatment infrastructure

The Group's cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 87.6% from RMB153.3 million for the year ended 31 December 2016 to RMB19.0 million for the Reporting Period. The decrease was mainly because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016, resulting in a decrease in cost, while projects under construction during the Reporting Period were primarily of small scale, such as Ya'erdang capacity expansion project.

### *5.4.1.3 Gross profit and gross profit margin*

As a result of above, our gross profit slightly increased from RMB214.6 million for the year ended 31 December 2016 to RMB253.5 million for the Reporting Period. Gross profit margin decreased from 25.7% for the year ended 31 December 2016 to 23.4% for the Reporting Period.

#### *5.4.1.3.1 Tap water supply*

##### Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 25.7% from RMB32.9 million for the year ended 31 December 2016 to RMB24.5 million for the Reporting Period. The corresponding gross profit margin decreased from 18.3% for the year ended 31 December 2016 to 11.8% for the Reporting Period. Such decrease was primarily due to an increase in maintenance expenses and day-to-day operating costs of Nanjiao Supply Plant II with its production not yet to reach its full capacity.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Installation and maintenance services

The gross profit of the Group for installation and maintenance services increased by 32.6% from RMB99.6 million for the year ended 31 December 2016 to RMB132.1 million for the Reporting Period. The corresponding gross profit margin decreased from 73.2% for the year ended 31 December 2016 to 61.2% for the Reporting Period, which was mainly attributable to increased material and equipment costs.

### Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure remained stable at RMB493,000 and RMB995,000 for the years ended 31 December 2016 and 2017, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% for both the years ended 31 December 2016 and 2017.

#### 5.4.1.3.2 Wastewater treatment

### Operating service

The gross profit of the Group for wastewater treatment operating services increased by 11.1% from RMB54.3 million for the year ended 31 December 2016 to RMB60.3 million for the Reporting Period. The corresponding gross profit margin decreased from 43.1% for the year ended 31 December 2016 to 39.7% for the Reporting Period. The decrease in gross profit margin was attributable to the increased provision for maintenance because of the trial operation of Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant in July 2015, July 2016 and July 2016, respectively.

### Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure decreased from RMB171,000 for the year ended 31 December 2016 to RMB11,000 for the Reporting Period. Such decrease was mainly because construction of Chengdong Treatment Plant and Chengnan Treatment Plant was completed in June 2016, while projects under construction during the Reporting Period were primarily of small scale, such as Ya'erdang capacity expansion project. The corresponding gross profit margin for both the years ended 31 December 2016 and 2017 remained stable at 0.1%.



### *5.4.1.4 Other Income, Expenses, Gains and Losses, Net*

The Group's other income, expenses, gains and losses, net decreased significantly from RMB33.4 million for the year ended 31 December 2016 to RMB14.7 million for the Reporting Period.

While there was an increase in VAT refund 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, the decrease was recorded in other income, expenses, gains and losses, net, which was mainly because the Group's gains on disposal of properties for the Reporting Period were just RMB17,000 (2016: RMB3.8 million) and the Group recorded a net foreign exchange losses of RMB17.6 million, mainly arising from conversion of our Hong Kong dollar denominated listing proceeds into Renminbi when there was depreciation of Hong Kong dollar against Renminbi (2016: RMB0.5 million).

### *5.4.1.5 Distribution and Selling Expenses*

The Group's distribution and selling expenses increased by 25.7% from RMB10.0 million for the year ended 31 December 2016 to RMB12.5 million for the Reporting Period. Such increase was primarily due to the listing in March 2017, leading to the increase in promotion and advertisements expenses, while to a lesser extent due to an increase in the salary of our employees.

### *5.4.1.6 Administrative Expenses*

The Group's administrative expenses increased by 25.0% from RMB46.3 million for the year ended 31 December 2016 to RMB57.9 million for the Reporting Period. The increase was mainly due to the increase in professional service fees paid for settlement audit of wastewater treatment plants, audit and evaluation.

### *5.4.1.7 Listing Expenses*

The Group's listing expenses increased from RMB1.8 million for the year ended 31 December 2016 to RMB7.7 million for the Reporting Period, primarily because we completed our global offering in March 2017 and incurred most of our listing expenses during the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.8 Finance Costs*

The Group's finance costs increased by 11.7% from RMB24.1 million for the year ended 31 December 2016 to RMB26.9 million for the Reporting Period, primarily due to the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant since July 2016.

### *5.4.1.9 Income Tax Expense*

In line with the decrease in profit before tax, the Group's income tax expenses decreased from RMB25.0 million for the year ended 31 December 2016 to RMB20.5 million for the Reporting Period. For the years ended 31 December 2016 and 2017, the effective tax rate of the Group was 15.1% and 12.6%, respectively. The main reason for the decrease of effective tax rate was that during the Reporting Period, Chengdong Treatment Plant and Chengnan Treatment Plant were entitled to preferential tax for the first three years from their commencement of operations and a 50% tax reduction for the three years thereafter, which is Tax Relief and 50% Tax Reduction for the First Six Years.

### *5.4.1.10 Profit after Tax and Profit Margin after Tax*

As a result of above, profit after tax of the Group increased by 1.3% from RMB140.8 million for the year ended 31 December 2016 to RMB142.7 million for the Reporting Period. Our profit margin after tax decreased from 16.8% for the year ended 31 December 2016 to 13.2% for the Reporting Period.

## **5.4.2 Analysis of Key Items of Consolidated Statement of Financial Position**

### *5.4.2.1 Property, Plant and Equipment*

Our property, plant and equipment was RMB37.0 million and RMB37.3 million as at 31 December 2016 and 2017, respectively, which consisted primarily of buildings, machinery and office equipment, office furniture and fixtures and vehicles. Such increase was mainly due to additions of non-infrastructure related machinery and office equipment.

### *5.4.2.2 Intangible Assets*

Intangible assets of the Group were RMB1,022.1 million and RMB1,461.2 million as at 31 December 2016 and 2017, respectively. Such increase was mainly due to the construction and upgrade work we completed for our construction and upgrade projects, such as Qiancao Supply Plant II.

### 5.4.2.3 Receivables under Service Concession Arrangements

The receivables under service concession arrangements of the Group were RMB773.2 million and RMB750.9 million as at 31 December 2016 and 2017, respectively. Such decrease was mainly due to settlement of the receivables.

### 5.4.2.4 Inventories

Our inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to RMB17.4 million and RMB28.0 million, as at 31 December 2016 and 2017, respectively. Such increase was mainly because the Group began overall district water supply during the Reporting Period and therefore the business of installation of water meters expanded, and the Group purchased a large amount of far passing water gauge and pipe material.

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

	For the year ended 31 December	
	2017	2016
Average inventory turnover days <sup>(1)</sup>	23	25

Note:

<sup>(1)</sup> Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services for the period (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) 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 inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days decreased from 25 days for the year ended 31 December 2016 to 23 days for the Reporting Period. Such decrease was a result of our enhanced internal control over inventories.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.5 Trade Receivables

Our trade receivables were RMB83.7 million and RMB100.4 million as at 31 December 2016 and 2017, respectively.

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

	For the year ended 31 December	
	2017	2016
Average trade receivables turnover days <sup>(1)</sup>	55	60

Note:

<sup>(1)</sup> Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue for the period (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of 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 services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our infrastructure construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days decreased from 60 days for the year ended 31 December 2016 to 55 days for the Reporting Period. Such decrease was a result of our enhanced management policies on trade receivables collection.

5.4.2.6 Trade Payables

Our trade payables were RMB10.4 million and RMB21.8 million as at 31 December 2016 and 2017, respectively.

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

	For the year ended 31 December	
	2017	2016
Average trade payables turnover days <sup>(1)</sup>	16	11

Note:

<sup>(1)</sup> 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 from our infrastructure construction and upgrade services because our accounts payable include cost of sales and services 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 cost of construction and upgrade of infrastructure services is a more accurate reflection of our actual trade payables condition. The main reason for such increase was that the Group purchased a large amount of far passing water gauge and pipe material during the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.7 Trade and Construction Payables

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:

	For the year ended 31 December	
	2017	2016
Average trade payables and construction payables turnover days <sup>(1)</sup>	95	84

Note:

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received for a period (as included in advance from customers and other payables) 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 84 days for the year ended 31 December 2016 to 95 days for the Reporting Period. Such increase was primarily attributable to our increased construction payables incurred in relation to various tap water supply projects, such as Qiancao Supply Plant II.

### 5.4.2.8 Deferred Revenue

Our deferred revenue was RMB128.6 million and RMB145.0 million as at 31 December 2016 and 2017, respectively. The increase in deferred revenue was mainly attributable to government grants on the Ya'erdang capacity expansion project during the Reporting Period.

### 5.4.2.9 Advance from Customers and Other Payables

Our advance from customers and other payables increased from RMB319.9 million as at 31 December 2016 to RMB431.5 million at the end of the Reporting Period, which was primarily attributable to (i) advance from customers related to installation projects for residential users; and (ii) construction payables and deposits received.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.10 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 maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the Reporting Period. 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.

As at the end of Reporting Period, the cash and cash equivalents of the Group amounted to RMB700.1 million (at the end of 2016: RMB526.6 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to RMB602.8 million (at the end of 2016: RMB685.3 million), including bank and other borrowings, of which, approximately 77.4% of our bank and other borrowings bears interest at floating rates, most of which are in RMB.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less restricted bank balance and bank balances and cash divided by total equity) was -5.2% (at the end of 2016: 11.2%).

## 5.5 EMPLOYEES AND REMUNERATION POLICY

As at the end of Reporting Period, the Group had 775 employees (at the end of 2016: 787 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB116.7 million (2016: RMB95.8 million). The Company will endeavor to keep the level of employees' remuneration in line with industry practices and prevailing market conditions. Such remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, will be determined by their performance. The Company also provides external and internal training programs for the employees.

During the Reporting Period, the Group did not incur any significant labour disputes that had material impact on the Group's normal business operations.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.6 INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with par value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. Some of proceeds from the IPO had been used as disclosed in the Prospectus. As at the end of the Reporting Period, HK\$174.0 million of the proceeds had been used by the Group for uses as disclosed in the Prospectus and HK\$226.8 million of the proceeds had not yet been used.

<b>Use of proceeds</b>	<b>Amount</b> <i>HK\$ million</i>	<b>Amount used</b> <i>HK\$ million</i>	<b>Amount unused</b> <i>HK\$ million</i>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	23.86	96.38
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	0	120.24
Used for repayment of existing bank borrowings	120.24	120.24	0
Used for provision of working capital and general enterprise purposes	40.08	29.88	10.20
<b>Total</b>	<b>400.80</b>	<b>173.98</b>	<b>226.82</b>

### 5.7 MAJOR ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not have any major acquisitions and disposals of subsidiaries, associates and joint ventures.

### 5.8 PLEDGES OF THE GROUP'S ASSETS

As at the end of 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, plus the land use right of Er'daoxi Branch (a wastewater treatment company of the Group) as collateral. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.9 FOREIGN EXCHANGE RISKS

The Group carries out business in the PRC and receives revenue and pays its costs/expenses in RMB. As at the end of the Reporting Period, the Group has a borrowing from The World Bank that is US\$ denominated and unutilized listing proceeds denominated in Hong Kong dollar and recognised net foreign exchange losses of RMB17.6 million in the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

### 5.10 CONTINGENT LIABILITIES

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

### 5.11 MAJOR INVESTMENT PLANS

Save as disclosed in the Prospectus, the Company has no further plans for major investments or acquisition of capital assets in the future.

### 5.12 SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the available-for-sale investments held by the Group amounted to RMB53.63 million (2016: RMB53.63 million), which represents the Group's equity investment in 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.\*(四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC that do not have quoted market prices in an active market and whose fair values cannot be reliably measured.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 6.1 EXECUTIVE DIRECTORS

**Mr. Zhang Qi (張歧先生)**, aged 44, joined the Group in 1992 and currently serves as executive Director, the chairman of the Board, a member of the nomination and remuneration committee and a member of strategy committee of the Company. He is primarily responsible for the overall operation of the Board, strategic development and planning and major decision making of the Group. He has also served as a director of the Controlling Shareholder, namely, Xinglu Investment, since March 2008, and the vice chairman of the board of directors of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015. He has been serving as director of Sichuan Xinhuoju Chemical Co., Ltd.\* (四川新火炬化工責任有限公司) since November 2017.

Mr. Zhang has more than 25 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 of Xinglu Water Company Limited from July 2002 to December 2005, served as the chairman of the Board and the general manager from December 2005 to December 2006 and served as a director and the general manager of Xinglu Water Company Limited from December 2006 to September 2015. He also served as the general manager of Xinglu Wastewater Treatment from December 2003 to May 2005, and as the chairman of the board of directors of Beijiao Water from June 2011 to May 2015. He was re-appointed as 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 granted by Personnel Department of Sichuan Province\* (四川省人事廳) in 2009.

**Mr. Liao Xingyue (廖星樾先生)**, aged 36, joined the Group in December 2015 and serves as an executive Director, and the general manager of the Company, mainly responsible for the Group’s daily operation matters.

Mr. Liao has nearly 9 years of experience of municipal infrastructure planning, investment, construction and management. Before joining the 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.

## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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.

**Mr. Wang Junhua (王君華先生)**, aged 53, joined the Group in April 2001 and serves as an executive Director, and a deputy general manager of the Company. Mr. Wang is mainly responsible for production and the management of technology information. He also serves as director of Xinglu Wastewater Treatment.

Mr. Wang has more than 31 years of experience in the tap water supply and wastewater treatment services industries. He started his career in Luzhou City Anfu Water and Electronic Supply Co., Ltd.\* (瀘州市安富供水供電公司) in March 1986. He then served as an assistant manager of Luzhou Tap Water and Xinglu Water Company Limited from April 2001 to September 2002. During this period, Mr. Wang joined 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 Xinglu Water Company Limited in December 2006 and January 2010, respectively. He also served as the chairman of the board of Jiangnan Water from October 2011 to February 2018, as supervisor of Luzhou Traffic Investment Group Co., Ltd.\* (瀘州市交通投資集團有限責任公司) from July 2011 to July 2017, as the chairman of the board of Hejiang Water from April 2013 to February 2017, as the chairman of the board of Nanjiao Water from December 2013 to February 2014, as the chairman of the board of Sitong Engineering from August 2013 to May 2015, and as the chairman of the board of 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.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

### 6.2 NON-EXECUTIVE DIRECTORS

**Mr. Chen Bing (陳兵先生)**, aged 47, joined in the Group in December 2012 and serves as a non-executive Director, and the chairman of the strategy committee of the Company. He concurrently acted as director and deputy general manager of Xinglu Investment, a director of Luzhou Infrastructure, the chairman of the board of Xinglu Investment Fund Management Co., Ltd.\* (瀘州市興瀘投資基金管理有限公司), 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.\* (瀘州市城南建設投資有限公司).

Mr. Chen has over 22 years of experience of corporate management. Before joining the 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 December 2006, 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 July 2010. 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.

**Ms. Xu Yan (徐燕女士)**, aged 52, joined the Group in December 2014 and serves as a non-executive Director. Ms. Xu has also served as the general manager and assistant president of the Finance Center of Luzhou Laojiao, and 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.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Ms. Xu has 22 years of experience of accounting and financial management. Before joining the 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 many 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 of Luzhou Laojiao from May 2005 to October 2015 successively. Ms. Xu has also served as the chairman of the board of directors of Longma Xingda Petty Loan Co., Ltd. from December 2011 to February 2017.

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.

**Mr. Xie Xin (謝欣先生)**, aged 41, has served as non-executive Director and a member of audit committee of the Company since September 2017. He also served as assistant president of Beijing Enterprises Water Group and the general manager of the central business region of Beijing Enterprises Water Group.

Mr. Xie served as manager of the decoration engineering company of Chongqing Taixing Technology Development Co., Ltd. from June 1998 to December 2000, deputy general manager of Chongqing Jufu Investment Holding Group Co., Ltd.\* (重慶聚富投資控股集團有限公司) from January 2000 to December 2010 and served many positions in the group at the same time during this period. Mr. Xie served as the general manager of Sichuan Shouxin Industrial Co., Ltd.\* (四川首信實業有限公司) from January 2011 to January 2015, the general manager of the Sichuan comprehensive business region of Beijing Enterprises Water Group from February 2015 to January 2018, assistant president of Beijing Enterprises Water Group since April 2017. He has served as assistant president of Beijing Enterprises Water Group and the general manager of the Central Business Region since January 2018.

Mr. Xie graduated from the School of Economics and Business Administration of Chongqing University and majored in accounting finance in June 1998, and obtained MBA degree in Real Estate of Chongqing University in 2008.

### 6.3 INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Gu Ming'an (辜明安先生)**, aged 52, was appointed as an independent non-executive Director, and the chairman of the nomination and remuneration committee and a member of the audit committee of the Company. He concurrently acted as a professor in Southwestern University of Finance and Economics\* (西南財經大學). Mr. Gu has also served as independent non-executive director of 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 2015 and December 2015 respectively. He also served as independent non-executive director of Luzhou City Commercial Bank Co., Ltd.\* (瀘州市商業銀行股份有限公司).

Mr. Gu has over 28 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. He also served as independent non-executive director of 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) from August 2014 to September 2016.

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 law 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.

**Mr. Lin Bing (林兵先生)**, aged 49, was appointed as independent non-executive Director, and a member of the strategy committee of the Company. He concurrently acted as the chairman and 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 27 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 has 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, since January 2005 and December 2011, respectively, and served as the vice chairman of the board of directors of Zigong Academy of Urban Planning and Design LLC from December 2011 to December 2017.

## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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, 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.

**Mr. Cheng Hok Kai, Frederick (鄭學啟先生)**, aged 54, has been serving as our independent non-executive Director, the chairman of the audit committee and a member of the nomination and remuneration committee of the Company since 31 March 2017.

Mr. Cheng has extensive experience in business, finance and accounting management. Prior to joining the 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, then served as company secretary, authorized representative, managing director of corporate finance and investment of PuraPharm Corporation Ltd. (stock code: 1498. HK). Mr. Cheng resigned from the above positions on 31 January 2018.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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 January 2004 and March 2013, 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.

### 6.4 SUPERVISORS

**Ms. Qu Mei (屈梅女士)**, aged 49, joined the Group in May 2007 and serves as the chairman of Supervisory Committee and a shareholder representative Supervisor. Ms. Qu concurrently served as employee supervisor of Xinglu Investment, the chairman of the supervisory committee of Luzhou Xinglu Agriculture Financing Secured Co., Ltd.\* (瀘州市興瀘農業融資擔保有限公司), supervisor of Luzhou Xinglu Financing Guarantee Co., Ltd.\* (瀘州市興瀘融資擔保有限公司), supervisor of Luzhou Huarun Xinglu Gas Co., Ltd.\* (瀘州華潤興瀘燃氣有限公司), and supervisor and secretary of general party branch of Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司).

Ms. Qu has 16 years of experience of corporate management. Before joining the 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 May 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 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. She was appointed as manager of the party affairs department of Xinglu Investment from March 2016 to September 2017, served as supervisor of Luzhou Communications Investment from April 2016 to July 2017 and supervisor of Luzhou Xinglu Lantian Market Management Co., Ltd. (瀘州市興瀘藍天市場管理有限公司) from November 2008 to November 2017.

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) 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.

## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

**Mr. Xu Ke (徐可先生)**, aged 36, joined the Group in December 2015 and currently serves as a shareholder representative Supervisor. Mr. Xu has served as general manager assistant of the legal affair center of Luzhou Laojiao since November 2015 and was responsible for legal affairs. He also served as director of Luzhou Hailizi Cross Border E-commerce Co., Ltd.\* (瀘州海蠣子跨境電子商務股份有限公司) and supervisor of Luzhou Yanxitang Folk Hotel Management Co., Ltd.\* (瀘州燕溪堂民俗酒店管理有限公司).

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.

**Ms. Huang Mei (黃梅女士)**, aged 49, joined the Group in December 1987 and currently serves as an employee representative Supervisor. She concurrently served as the chairman of the Labour Union of the Company and the deputy secretary of the Party Committee of the Company since 2002 and 2016, respectively, as the chairman of the supervisory committee of Xinglu Wastewater Treatment since September 2014, and as 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 the Company and concurrently served as a deputy general manager of the Company from March 2008 to November 2009 and the head of materials supply department of the Company from December 2014 to September 2015. She served as supervisor of Beijiao Water from April 2008 to February 2018 and the chairman of the board of directors of Naxi Water from April 2013 to February 2018.

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 46, joined the Group in September 1989. She has served as an employee representative Supervisor since July 2016 and as the office director of the Board of the Company since October 2017. She has concurrently served as the director of Xinglu Wastewater Treatment since September 2014 and as supervisor of Luzhou Industrial Investment Group Co., Ltd. since March 2015.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Ms. Xiang has 21 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 the Company from July 2002 to March 2015, as the general manager assistant of the Company from January 2013 to July 2015, and as the head of political and labour department of the Company from July 2013 to December 2013. Ms. Xiang also served as the director of the Company from December 2009 to June 2016, the chairman of the board of directors of Sitong Engineering from May 2015 to February 2018 and the director of the office of the Company from July 2015 to October 2017.

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.

**Mr. Zhu Yuchuan (朱玉川先生)**, aged 55, joined the Group in April 1984 and serves as an employee representative Supervisor. He has served as the manager of the technology information department of the Company since October 2017.

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 the 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. He served as the manager of the technology department of the Company from December 2014 to October 2017.

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 47, has served as an external Supervisor since 31 March 2017. 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 12 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.



## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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 34, has served as an external Supervisor since 31 March 2017. Mr. Xiong concurrently has 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 nine 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, and graduated from Xichang University (西昌學院), majoring in engineering management in June 2016. 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.

### 6.5 SECRETARY OF THE BOARD

**Mr. Chen Yongzhong (陳永忠先生)**, aged 44, joined the Group in December 2012 and serves as our secretary to the Board and one of our joint company secretaries. Mr. Chen is primarily responsible for assisting the chairman of the Board to deal with daily operations of the Board and external investment.

Mr. Chen has over 20 years of experience of accounting and financing. Before joining the 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 the Group and served as the chief financial officer of the Company from December 2012 to December 2017. He also served as the chief financial officer of Xinglu Wastewater Treatment from August 2012 to September 2016.

## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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.

### 6.6 SENIOR MANAGEMENT

**Mr. Chen Xuejie (陳學傑先生)**, aged 53, has served as deputy general manager of the Company since August 2017 and was responsible for water supply business services, general affairs and quality system work.

Mr. Chen served as several positions such as reporter and editor of Luzhou Radio Station\* (瀘州廣播電臺) from March 1986 to January 1995, successively as reporter, editor, director, deputy editor-in-chief, editor-in-chief, president and secretary of Luzhou Radio and TV News\* (瀘州廣播電視報社) from January 1995 to September 2008. Then he served as general manager assistant and manager of the safety management department of Luzhou Guohua Asset Management Co., Ltd.\* (瀘州市國華資產經營管理有限公司) and served as deputy general manager from July 2009 to August 2013. Mr. Chen served as executive director, general manager and other positions of Luzhou Hongyang Guangsha Real Estate Development Co., Ltd.\* (瀘州市鴻陽廣廈房地產開發有限公司) (changed its name to "Luzhou Industrial Investment Huarui Real Estate Development Co., Ltd.") from August 2013 to April 2016, as executive director and general manager of Chengdu Luzhou Hotel Co., Ltd.\* (成都瀘川酒店有限責任公司) from October 2014 to August 2017, as executive director and general manager of Luzhou State-owned Assets Management Co., Ltd. from April 2016 to August 2017 and as executive and general manager of Luzhou Industrial Investment International Tendering Co., Ltd.\* (瀘州工投國際招標有限責任公司) from May 2017 to August 2017.

Mr. Chen graduated from the Department of Economics and Management of the Central Party School of the Communist Party of China in December 1998, and was qualified as intermediate news editor by Luzhou Title Reform Work Leading Team\* (瀘州市職稱改革工作領導小組) in April 1999.

**Mr. Wang Minghua (王明華先生)**, aged 49, joined the Group in July 2015 and serves as a deputy general manager of the Company. Mr. Wang is primarily responsible for the management of legal affairs, audit and security and environmental protection of the Company. Mr. Wang serves as a director of Luzhou Infrastructure concurrently.

## CHAPTER VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Wang has 28 years of experience of financial management work. Before joining the 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.

**Mr. Ouyang Peng (歐陽鵬先生)**, aged 43, joined the Group in September 2013 and serves as the chief financial officer and manager of the accounting department of the Company. He is mainly responsible for the financial management and material supply management of the Company. He also served as the chairman of the Board of Sitong Engineering concurrently.

Before joining the Group, Mr. Ouyang worked in the integrated management section of the finance department of Lutianhua (Group) Co., Ltd.\* (瀘天化(集團)有限責任公司) from July 1998 to February 2002. Then he served as deputy chief of the finance section of Lutianhua Huajian Company\* (瀘天化化建公司) from February 2002 to January 2007, as deputy director of the finance department of Sichuan Lutianhua Hongxu Engineering Construction Co., Ltd.\* (四川瀘天化弘旭工程建設有限公司) from February 2007 to September 2013 (during this period, he served as director of the finance department of Sichuan Lutianhua Jingzheng Technology Detection Co., Ltd.\* (四川瀘天化精正技術檢測有限公司) from April 2009 to March 2012 concurrently and as deputy director of the finance department of Sichuan Chemical Holdings (Group) Chengdu Engineering Branch\* (四川化工控股(集團)成都工程分公司) from February 2012 to August 2013). Thereafter, he served as assistant director of the finance department of Luzhou Xinglu Water Co., Ltd. from November 2013 to March 2014, as deputy director of the finance department of Luzhou Xinglu Water Co., Ltd. from March 2014 to July 2016 and as director of the finance department of the Company from July 2016 to October 2017. He also served as the chief of the finance section of Sitong Engineering from September 2013 to December 2017 and as deputy general manager of Sitong Engineering from April 2014 to January 2018 concurrently.

Mr. Ouyang graduated from Sichuan Union University (now Sichuan University), majoring in economics in July 1998. He was qualified as senior accountant by Sichuan Provincial Human Resources and Social Security Department\* (四川省人力資源和社會保障廳) in June 2011.



## 6.7 JOINT COMPANY SECRETARIES

**Mr. Chen Yongzhong (陳永忠先生)**, aged 44, has served as one of our joint company secretaries since August 2016. He concurrently served as our secretary to the Board. For his biographical details, please refer to “Secretary of the Board” in this section.

**Ms. Ng Wing Shan (吳詠珊女士)**, has served as one of our joint company secretaries since 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.

## CHAPTER VII. DIRECTORS' REPORT

### 7.1 PRINCIPAL BUSINESSES

The Group is an integrated operator primarily engaged in municipal water supply and wastewater treatment 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 85.5% 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.

### 7.2 RESULTS

The audited results of operations of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 131. The financial position of the Group as at the end of the Reporting Period is set out in the consolidated statement of financial position on pages 132 to 133. The consolidated cash flow of the Group during the Reporting Period is set out in the consolidated statement of cash flows on pages 135 to 136.

### 7.3 FINAL DIVIDENDS

The Board recommended a final dividend of RMB0.08 per share (tax inclusive) (2016: Nil) for the year ended 31 December 2017 to Shareholders of the Company listed on Tuesday, 10 July 2018 (the "Record Date") (subject to the Shareholders' approval at the Annual General Meeting) whose names appeared on the register of members, with the total amount of approximately RMB68,776,800.00. The final dividends will be distributed on or before Monday, 30 July 2018.

### 7.4 TAX RELIEF

Under the relevant tax rules and regulations of the PRC (collectively, the "PRC Tax Law"), the Company is required to withhold enterprise income tax at the rate of 10% when distributing final dividends to non-resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the H Shares register of members of the Company.

In accordance with the PRC Tax Law, the Company is also required to withhold individual income tax when distributing final dividends to individual shareholders whose names appeared on the H Shares register of members of the Company. The Company will determine the country of domicile of the individual H Shareholders based on the registered addresses as recorded in the H Shares register of members of the Company on the Record Date with details as follows:

For individual H Shareholders who are Hong Kong and Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

For individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them. If such individual H Shareholders would like to apply for a refund of the additional amount of tax withheld and paid, the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the tax treaties.

For individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of higher than 10% but lower than 20%, the Company would withhold and pay the individual income tax at the agreed-upon effective tax rate on behalf of them.

For individual H Shareholders who are residents of those countries without any tax treaties with the PRC or having tax treaties with the PRC stipulating a dividend tax rate of 20% or more and other situations, the Company would withhold and pay the individual income tax at a tax rate of 20% on behalf of them.

Should H Shareholders have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax implications in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

### 7.5 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 Wednesday, 16 May 2018 to Friday, 15 June 2018 (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 Wednesday, 16 May 2018. 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 Shareholders), 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 Shareholders) no later than 4:30 p.m. on Tuesday, 15 May 2018.



## CHAPTER VII. DIRECTORS' REPORT (Continued)

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the Annual General Meeting, the register of members of the Company will be closed from Friday, 6 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which period no transfer of Shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Tuesday, 10 July 2018. In order to be qualified to obtain final dividends, 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 Shareholders), 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 Shareholders) no later than 4:30 p.m. on Thursday, 5 July 2018.

### 7.6 ANNUAL GENERAL MEETING

We will convene the annual general meeting for 2017 on Friday, 15 June 2018.

### 7.7 BUSINESS REVIEW

The Company's business review during the Reporting Period is set out in the sections of "Business Review" and "Financial Review" to the chapter headed "Management Discussion and Analysis" on pages 14 to 26 in this annual report. The "Financial Review" section also includes the analysis of the performance of relevant key financial indicators during the Reporting Period. The potential development of the Company's businesses is set out in the section "Future Prospect" to the chapter headed "Chairman's Statement" on page 10 and the section "Development Strategy and Outlook" to the chapter headed "Management Discussion and Analysis" on page 14 in this annual report.

### 7.8 FINANCIAL SUMMARY

Consolidated results and consolidated assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Highlights" on pages 11 to 12 in this annual report.

### 7.9 ENVIRONMENT POLICY AND PERFORMANCE

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. Due to the improvement of the environmental protection requirements, the Company increases large investment in compliance measures, with an aim to complying with supervision of relevant central and local government sectors and industry associations, and industry standards. The main environmental risk during the operation is sludge in sewage treatment process. This kind of sludge mainly contains mud, sand and other micro-sediments in the sewage. It is not a kind of hazardous waste, but we refer to the management of hazardous waste in terms of management, storage and disposal. We have engaged a third party to transport the sludge generated during the sewage treatment process to landfills designated by the relevant government departments or cooperate with qualified building material factories to conduct compliance treatment. During the Reporting Period, the Company's production was safe and environmental-friendly, with no non-compliance records.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.10 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 Hong Kong Stock Exchange, the Company shall be bound by the Listing Rules and the SFO. The Company was praised at the creating activity of the third batch of “Honest and Law-abiding Demonstration Enterprises” organized and launched by the state-owned asset system of Sichuan province.

### 7.11 MAJOR RISK FACTORS

The major risks the Company is faced with are as follows:

#### 7.11.1 Market Expansion and Investment Risks

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. If business expansion cannot be carried out effectively, it will have a negative effect on the Company's revenue.

Therefore, we will take the following countermeasures: enhance our capabilities in technology, capital and management through technical reform and enhanced management, enable the Company to expand its business into regions where cooperation and support intentions have been shown by the local government, and ensure the external business expansion of the Company through multiple cooperation modes.

#### 7.11.2 Operation and Management Risks

Our operating results and financial position rely on local economic and social conditions. Failure to obtain sufficient funds or refinancing existing debt may adversely affect our operation management and financial conditions.

We will take the following countermeasures: improve risk awareness, establish an effective risk prevention mechanism, continuously evaluate the level of financing risks, implement dynamic management of the entire financing process, and try to reduce financing costs. Besides, ensure that there are sufficient management, operational, human, and financial resources to maintain our sustainable development and improve our own competitiveness and profitability.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.11.3 Cost Control Risks

In recent years, the quality of energy, labour, raw materials and environmental label has improved. In particular, according to the requirements of environmental protection, the increase in standard and capacity of sewage treatment facilities will lead to a certain increase in the direct operating costs, which may adversely affect the financial condition of the Company. We will take the following countermeasures: combine the construction of internal supervision system, further improve the operation management system and business processes; strengthen the management and construction of subordinate enterprises and continue to promote our refined management system; pay attention to employee training and improve their professional skills; continue to explore core technologies through automation improvement and promotion of smart water meters for energy conservation and consumption reduction.

### 7.11.4 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.

We will take the following countermeasures: 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.

## 7.12 KEY RELATIONSHIPS

### 7.12.1 Employees

At the end of the Reporting Period, the Company had 775 employees in total. We believe that employees are valuable resources for our success, so the Group attaches great importance to the development of career paths of its staffs and carries out comprehensive performance assessment for all staff to reward and praise outstanding employees and provide more comprehensive career training and development plan for all employees. We will provide new employees with training corresponding to their expected duties.



## CHAPTER VII. DIRECTORS' REPORT (Continued)

The remuneration of our employees includes basic salary, bonuses and other employee benefits. The total staff cost of the Company was RMB116.7 million during the Reporting Period.

Pursuant to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and relevant national and local government regulations, 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, maternity leave insurance and housing provident fund.

Our union represent our employees' interests and closely communicate with our management on labour matters. As of the end of the Reporting Period, we did not experience disruptions in operations due to major labour disputes. None of the employees and third parties have submitted major claims to us and there are no penalties imposed by the relevant government authorities.

### 7.12.2 Customers

In tap water supply, our customers are mainly urban and rural residents, industrial and commercial users and other institutions in three districts and two counties of Luzhou. In wastewater treatment service, our customers are mainly local governments in three districts and four counties in Luzhou.

During the Reporting Period, the total amount of sales to the five largest customers of the Group was RMB676.1 million, accounting for 62.5% of the total amount of revenue for the year ended 31 December 2017, and the total amount of sales to the largest customer was RMB560.2 million, accounting for 51.8% of the total amount of revenue for the year ended 31 December 2017.

Our top five customers are independent third parties. During the Reporting Period, 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 as of the end of the Reporting Period) do not hold any interest in the top five customers of the Group. There is no such situation in the Company that our major customers are our suppliers at the same time.

The Group develops its business upon a customer-oriented culture and focuses on building relationships with governments in regions and counties across China. It is very important for the Group's long-term development to maintain good relationships with customers. Therefore, the Group has always been committed to providing customers with consistently high-quality services.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.12.3 Suppliers

Our main suppliers are power suppliers (providing power for our facilities), construction contractors (designing and building our facilities) and raw material suppliers (supplying chemicals for tap water production and sewage treatment, and other equipment maintenance consumables).

During the Reporting Period, the total amount of procurement from the five largest suppliers of the Group was RMB351.3 million, accounting for 52.9% of the total amount of procurement for the year ended 31 December 2017. The purchase from the largest supplier was RMB142.4 million, accounting for 21.5% of the total amount of procurement for the year ended 31 December 2017.

Our top five suppliers are independent third parties. During the Reporting Period, the Directors and the Supervisors, and their respective close associates, (as defined under the Listing Rules) or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company as of the end of the Reporting Period) do not hold any interest in the top five suppliers of the Group.

In addition to public service providers, we have established centralized purchasing policies for our suppliers that have already entered into cooperation. According to this policy, the Group needs to invite tenders from different suppliers and select suppliers based on the price, quality and delivery timeliness of their products. All supply contracts need to be reviewed and approved by the headquarters. The headquarters will conduct regular tests to check the quality of delivered products.

### 7.12.4 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.

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

The Company's general meeting provides a direct dialogue platform between the Board and Shareholders.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.13 SHARE CAPITAL

At the end of the Reporting Period, the number of the Company's total Shares was 859.71 million shares and the total share capital was RMB859.71 million, with RMB1 per share, of which, RMB644.77 million for Domestic Shares and RMB214.94 million for H Shares.

### 7.14 BOND ISSUANCE

During the Reporting Period, the Company did not issue bonds.

### 7.15 PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed listed securities of the Company for the period from the Listing Date to the end of the Reporting Period.

### 7.16 PRE-EMPTIVE RIGHTS

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

### 7.17 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 are also set out.

### 7.18 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 14 to the consolidated financial statements in this annual report.

### 7.19 BANK BORROWINGS AND OTHER BORROWINGS

Details of the Group's bank borrowings and other borrowings as at the end of the Reporting Period are set out in the Note 25 to the consolidated financial statements in this annual report.

### 7.20 DONATIONS

During the Reporting Period, the Group's external donation amounted to RMB264,000 (excluding employees' personal donation).



## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.21 DIRECTORS

#### 7.21.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of the Company comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Directors are appointed by Shareholders of the Company, with a term of three years or until the expiry of first session of the Board (whichever is earlier) and eligible for re-election.

The following table sets forth the status of Directors of the Company during the Reporting Period and as at the date of this annual report:

##### *7.21.1.1 Directors*

<b>Name</b>	<b>Position in the Company</b>	<b>Appointment date of current term</b>
Mr. Zhang Qi	Executive Director and Chairman of the Board	December 2015
Mr. Liao Xingyue	Executive Director and General manager	December 2015
Mr. Wang Junhua	Executive Director and Deputy general manager	December 2015
Mr. Chen Bing	Non-executive Director	December 2015
Ms. Xu Yan	Non-executive Director	December 2015
Mr. Xie Xin	Non-executive Director	September 2017
Mr. Gu Ming'an	Independent non-executive Director	March 2017
Mr. Lin Bing	Independent non-executive Director	March 2017
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	March 2017

##### *7.21.1.2 Supervisors*

The Supervisory Committee of the Company comprises seven Supervisors, including two shareholder representative Supervisors, three employee representative Supervisors and two external Supervisors. Save for employee representative supervisors, other supervisors are appointed by Shareholders of the Company, with a term of three years or until the expiry of the first session of the Supervisory Committee (whichever is earlier) and eligible for re-election.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

The following table sets forth the status of Supervisors of the Company during the Reporting Period and as of the date of this annual report:

<b>Name</b>	<b>Position in the Company</b>	<b>Appointment date of current term</b>
Ms. Qu Mei	Chairperson of the Supervisory Committee and shareholder representative Supervisor	December 2015
Mr. Xu Ke	Shareholder representative Supervisor	December 2015
Ms. Huang Mei	Employee representative Supervisor	June 2016
Ms. Xiang Min	Employee representative Supervisor	July 2016
Mr. Zhu Yuchuan	Employee representative Supervisor	December 2015
Mr. Xuan Ming	External Supervisor	March 2017
Mr. Xiong Hua	External Supervisor	March 2017

### 7.21.1.3 Senior Management

The Company has one general manager, several deputy general managers, one chief financial officer and one secretary to the Board, all appointed or dismissed by the Board. They have a term of three years and are eligible for re-election.

The following table sets forth the status of senior management of the Company during the Reporting Period and as at the date of this annual report:

<b>Name</b>	<b>Position in the Company</b>	<b>Appointment date of current term</b>
Mr. Chen Yongzhong	Secretary to the Board	May 2016
	Joint company secretary	July 2016
Mr. Chen Xuejie	Deputy general manager	August 2017
Mr. Wang Minghua	Deputy general manager	December 2015
Mr. Ouyang Peng	Chief financial officer	December 2017

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.21.2 CHANGES IN DIRECTOR'S INFORMATION

Mr. Yang Ronggui resigned as a non-executive Director of the Company due to the change of work allocation. On the 16th meeting of the first session of the Board on 28 August 2017, the Company approved the resignation of Mr. Yang Ronggui as a non-executive Director of the first session of the Board and a member of the audit committee, and the appointment of Mr. Xie Xin as a non-executive Director and a member of the audit committee, with a term until the expiry date of such session of the Board. The appointment of Mr. Xie Xin became effect on 12 September 2017, and the resignation of Mr. Yang Ronggui took effect on the same date.

### 7.21.3 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 29 to 41 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.

### 7.21.4 SERVICE CONTRACT OF THE DIRECTORS AND SUPERVISORS

The Company has entered into a service contract with each of the Directors, Supervisors and senior management 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 its terms, the Articles of Association and applicable rules.

During the Reporting Period, 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).

### 7.21.5 REMUNERATION OF DIRECTORS AND SUPERVISORS

Details for remuneration of Directors and Supervisors are set out in Note 11 to the consolidated financial statements in this annual report.



## CHAPTER VII. DIRECTORS' REPORT (Continued)

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

The Company offers executive Directors, employee representative Supervisors and senior management members, who are also employees of the Company, emolument in the form of basic salary, performance-based bonus and other benefits. We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals. Independent non-executive Directors and external Supervisors are entitled to emolument offered by the Company. Non-executive Directors and shareholder representative Supervisors who do not assume any management positions in the Company will not receive any emolument from the Company.

### 7.21.7 DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

During the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or bonds of the Company to any Directors or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights; nor did the Company or any of its subsidiaries have any arrangement enabling the Directors or Supervisors to acquire such rights in any other body corporate.

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

During the Reporting Period, none of Directors or Supervisors or entities connected with any of them directly or indirectly held material interest in subsisting and significant transactions, arrangements or contracts of the Group.

### 7.21.9 DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, to the knowledge of the Board, none of the Directors or Supervisors or their respective associates has any business or interest that competes or may compete with the business of the Group or has or may have any other conflict of interest with the Group.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

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

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executive had any interests and/or short positions in the Shares, and (in respect of positions held pursuant to equity derivatives) underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which should be notified to the Company and the Hong Kong 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 as set out in the Appendix 10 to the Listing Rules to be notified to the Company and Hong Kong Stock Exchange.

### 7.22 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

To the best knowledge of the Company, as at the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong 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, or owned interest and short positions in more than 5% of any class of issued shares of the Company:

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment* (興瀘投資) <sup>(2)</sup>	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* (瀘州老窖)	Beneficial owner	Domestic Shares	70,406,310(L)	10.92%	8.19%
Luzhou Infrastructure* (瀘州基建) <sup>(2)</sup>	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 <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%

## CHAPTER VII. DIRECTORS' REPORT (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Beijing Enterprises Group (BVI) Company Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd. <sup>(4)(7)</sup>	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%
Suntront Tech Co., Ltd. <sup>(5)(7)</sup>	Beneficial owner	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) <sup>(6)(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd. <sup>(7)</sup>	Beneficiary of a trust	H Shares	94,671,000 (L)	44.04%	11.00%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) <sup>(7)</sup>	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) <sup>(7)</sup>	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) <sup>(7)</sup>	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) <sup>(7)</sup>	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) <sup>(7)</sup>	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) <sup>(7)</sup>	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%

(1) As at the end of the Reporting Period, 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.

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



## CHAPTER VII. DIRECTORS' REPORT (Continued)

- (3) Beijing Enterprises Water Group Limited is the beneficial owner of the 71,500,000 H Shares and is held by Beijing Enterprises Environmental Construction Limited as to 41.06%, which is in turn wholly-owned by Beijing Enterprises Holdings Limited, which is held as to 41.06% by Beijing Enterprises Group (BVI) Company Limited, as to 12.97% by Beijing Enterprises Investments Limited and as to 7.93% by Modern Orient Limited, wholly-owned by Beijing Enterprises Investments Limited. Beijing Enterprises Investments Limited is held as to 72.72% by Beijing Enterprises Group (BVI) Company Limited, which is wholly-owned by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Investments Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.
- (4) To the best knowledge of the Company, 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 to be 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 to be interested in H Shares held by Suntront Tech Co., Ltd.
- (6) To the best knowledge of the Company, Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司) has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產發展有限公司). Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed to be interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd.
- (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 to be 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 Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Company, as at the end of the Reporting Period, 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 Share and (in respect of positions held pursuant to equity derivatives) underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong 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.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.23 SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the minimum public float required by the Listing Rules during the Reporting Period.

### 7.24 EQUITY-LINKED AGREEMENT

During the Reporting Period, the Company has not entered into any equity-linked agreement.

### 7.25 INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

Details about the IPO during the year and the use of proceeds from the IPO are set out in the section headed "Initial Public Offering and Use Of Proceeds from the Initial Public Offering" in "Management Discussion and Analysis" on page 27 of this annual report.

### 7.26 MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business was entered into or existed during the Reporting Period (other than service contracts related to Directors, Supervisors and all staff of the Group).

### 7.27 MATERIAL CONTRACTS

Save as disclosed in this annual report, during the Reporting Period, the Company or any of its subsidiaries have not entered into any material contracts with the Controlling Shareholder or any of its subsidiaries, or did not have any material contracts in relation to provision of services by the Controlling Shareholder or any of its subsidiaries.

### 7.28 CONTINUING CONNECTED TRANSACTIONS

#### 7.28.1 EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group had conducted a number of exempted continuing connected transactions which are fully exempt from shareholders' approval, annual review and all disclosure requirements under the Listing Rules.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### *7.28.1.1 Provision of Tap Water Supply Services*

The Group has been providing tap water supply services in its ordinary and usual course of business to the public in Luzhou Area, Sichuan Province, which also includes the connected persons of the Company (including the Controlling Shareholder and its subsidiaries). During the Reporting Period, the provision of tap water supply services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules.

The tap water supply services provided by Group to its connected persons are conducted in the ordinary and usual course of the Group's business and on normal commercial terms that are comparable to or no more favorable than those offered to independent third parties. Therefore, these continuing connected transactions, namely selling of consumer goods and services under Chapter 14A.97 of the Listing Rules, will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount of the tap water supply income of the Group was RMB1,951,000.

### *7.28.1.2 Provision of Installation and Maintenance Services*

The Group has been providing installation and maintenance services (including water quality testing after installation) in its ordinary and usual course of business to the certain connected persons of the Company (including the Controlling Shareholder and its subsidiaries). During the Reporting Period, the provision of installation and maintenance services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules.

The installation and maintenance services provided by Group to its connected persons are conducted in the ordinary and usual course of the Group's business and on normal commercial terms that are comparable to or no more favorable than those offered to independent third parties. Therefore, these continuing connected transactions, namely selling of consumer goods and services under Chapter 14A.97 of the Listing Rules, will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount of the installation service income received and water quality testing income of the Group was RMB13,002,000.



## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.28.1.3 Property Lease

The Company has been using and occupying the first, fifth to ninth floors of a property situated at 16 Baizi Road, Jiangyang District, Luzhou City, Sichuan Province, the PRC, with a gross floor area of approximately 5,989 square meters as the Company's office pursuant to a property leasing agreement ("Company Property Leasing Agreement") dated 30 June 2014 between Luzhou City Xinglu Assets Management Co., Ltd. and the Company for the use and occupation of the said property at nil consideration for a term from 30 June 2014 to 29 June 2017. Such Company Property Leasing Agreement was renewed on 1 July 2017 with a term from 1 July 2017 to the date of completion of construction of office building and commencement of operation ("Renewed Company Property Leasing Agreement") as the office building of the Company has not been put into use upon expiry of the Company Property Leasing Agreement. Upon completion of construction and put into use of such office building, the Company will cease to use or occupy the said property leased from Luzhou City Xinglu Assets Management Co., Ltd.

Given that the consideration under the Company Property Leasing Agreement and the Renewed Company Property Leasing Agreement is nil, and thus each of the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transaction thereunder is less than 0.1%, such transaction constitute de minimis continuing connected transaction under Rule 14A.76 of the Listing Rules. Therefore, such transaction will be exempt from the reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount paid by the Company for the property lease was nil.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.28.2 NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Company has obtained the approval from the Hong Kong Stock Exchange on the annual caps of the following non-exempted continuing connected transactions upon the IPO and the continuing connected transactions below were exempt from the requirements of announcement and independent shareholders' approval. The following table sets out the actual transaction value of such continuing connected transactions during the Reporting Period:

Name of agreement	Date and term	Connected person	Nature and overview of the transaction	Basis for pricing	Total amount of transactions for the year ended 31 December 2017 (RMB'000)	Annual Cap for the year ended 31 December 2017 (RMB'000)
Property Management Agreement	25 December 2015; from 1 January 2016 to 31 December 2017	Luzhou Xinglu Property Management Co., Ltd.* (瀘州興達物業管理有限公司), an associate of Xinglu Investment, the Controlling Shareholder	Provision of property management service by Luzhou Xinglu Property Management Co., Ltd. for 7 sewage treatment plants of the Group	During any designated period, the fixed amount of property management fee is determined based on (i) the scope of service; (ii) covering areas; (iii) number of employees required for provision of the service; and (iv) staff remuneration. The property management fee is determined with reference to the prevailing market interest rates and on normal commercial terms after arm's length negotiation.	2,983	3,200

### 7.28.3 CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDITORS OF THE COMPANY

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 and usual course of 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.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

The Company's auditor was engaged to conduct audit work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Pursuant to the rule 14A.56 of the Listing Rules, the auditor has issued a letter to the Board of the Company that nothing has come to their attention that causes them to believe that the continuing connected transactions disclosed by the Group:

1. have not been approved by the Company's board of directors;
2. were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
3. have exceeded the annual caps set by the Company.

Save as disclosed above, other related party transactions disclosed in Note 38 to the consolidated financial statements in this annual report do not constitute the "connected transaction" or "continuing connected transaction" defined 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.



## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.29 COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Controlling Shareholder signed a non-competition agreement (the "Non-competition Agreement") on 10 March 2017, in favour of the Company. Pursuant to the Non-competition Agreement, the Controlling Shareholder has irrevocably undertaken to the Company that it would not, and would procure that its subsidiaries would not, directly or indirectly, engage in any relevant business that may be in competition with the Company. Non-competition business refers to all business lines of the 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. For details, please refer to the section headed "Relationship with our Controlling Shareholder" in the Prospectus of the Company.

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 was not in breach of the Non-competition Agreement during the Reporting Period.

### 7.30 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 important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees.

During the Reporting Period, the Company has complied with all code provisions of the Corporate Governance Code and adopted most of the recommended best practice thereof. For details about corporate governance practice of the Company, please refer to the section headed "Corporate Governance Report" on pages 69 to 82 of this annual report.

### 7.31 PERMITTED INDEMNITY PROVISIONS

During the Reporting Period, the Company has purchased and maintained a collective liability insurance covering, but not limited to, all Directors.

## CHAPTER VII. DIRECTORS' REPORT (Continued)

### 7.32 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 Company at the end of the Reporting Period.

### 7.33 AUDIT COMMITTEE

The audit committee of the Group has reviewed the annual results and the consolidated financial statements of the Company for the year ended 31 December 2017.

### 7.34 INTERNATIONAL 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 2017. The Company's consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRSs have been audited by Deloitte Touche Tohmatsu. The Company has retained the services of Deloitte Touche Tohmatsu since 2016.

**Luzhou Xinglu Water (Group) Co., Ltd.**

*Chairman of the Board*

**Zhang Qi**

Luzhou, the PRC

28 March 2018

## CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT

### 8.1 COMPOSITION OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises seven Supervisors, including two shareholder representative Supervisors, three employee representative Supervisors and two external Supervisors, with a term of three years and eligible for re-election.

Supervisors of the Company during the Reporting Period and as of the date of this annual report are as follows:

<b>Name</b>	<b>Position in the Company</b>	<b>Appointment date of current term</b>
Ms. Qu Mei	Chairperson of the Supervisory Committee and shareholder representative Supervisor	December 2015
Mr. Xu Ke	Shareholder representative Supervisor	December 2015
Ms. Huang Mei	Employee representative Supervisor	June 2016
Ms. Xiang Min	Employee representative Supervisor	July 2016
Mr. Zhu Yuchuan	Employee representative Supervisor	December 2015
Mr. Xuan Ming	External Supervisor	March 2017
Mr. Xiong Hua	External Supervisor	March 2017

### 8.2 WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee performed their supervision duties diligently and protected the interest of the Company and the Shareholders in accordance the Company Law, the Articles of Association, the Rules of Procedure of the Supervisory Committee and relevant laws and regulations, which included the following aspects:

#### 8.2.1 ATTENDANCE OF BOARD MEETINGS AND SIGNIFICANT MEETINGS

During the Reporting Period, the Supervisory Committee observed the Board meetings and important economic work meetings 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 protect the interest of the Shareholders.



## CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT (Continued)

### 8.2.2 MEETINGS OF THE SUPERVISORY COMMITTEE

Attendance of members of the Supervisory Committee is recorded as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/eligible for attending</b>	<b>Attendance rate</b>
Ms. Qu Mei	Chairperson of the Supervisory Committee and shareholder representative Supervisor	2/2	100%
Mr. Xu Ke	Shareholder representative Supervisor	2/2	100%
Ms. Huang Mei	Employee representative Supervisor	2/2	100%
Ms. Xiang Min	Employee representative Supervisor	2/2	100%
Mr. Zhu Yuchuan	Employee representative Supervisor	2/2	100%
Mr. Xuan Ming	External Supervisor	2/2	100%
Mr. Xiong Hua	External Supervisor	2/2	100%

### 8.2.3 SUPERVISION OVER PRODUCTION, OPERATION AND MANAGEMENT

The Supervisory Committee conducted supervision over operating activities, monitored the compliance with laws and regulations, the construction of internal control system and its effectiveness, and related-party transactions with related parties, so as to protect the interest of the Company and the Shareholders.

### 8.2.4 SUPERVISION OVER FINANCIAL OPERATION

The Supervisory Committee conducted supervision over financial operation of the Company by inquiring upon and reviewing the financial reports on a regular basis.

### 8.2.5 SUPERVISION OVER PERFORMANCE OF DUTIES BY DIRECTORS AND SENIOR MANAGEMENT

The Supervisory Committee conducted supervision over due diligence of the Directors and senior management to prevent any behavior that would undermine the interest and image of the Company.

### 8.3 BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS OF THE COMPANY IN 2017

#### 8.3.1 Evaluation on the work of the Board

Aiming at protecting the interest of the Company and the Shareholders in practice, the Supervisory Committee performed its supervisory duties diligently. The Supervisory Committee observed the Board meetings for 2017 and confirmed the contents of the meetings convened by way of communication. The Supervisory Committee considers that the convening of Board meeting, the qualification of participants and the decision-making procedures met requirements of the Company Law, the Securities Law and the Articles of Association, and that the resolutions made were valid and effective. In the meantime, the Board duly executed all resolutions approved by the general meeting, exercised its rights granted under the law and by the Shareholders. There was no behavior that undermined the interest of the Company and the Shareholders; there was no operation that was in breach of rules and regulations.

#### 8.3.2 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 of 2017 marked the first year after listing, during which, the operation team of the Company, under the correct leadership of the Board, focused closely on operating targets and the core task of "safe water supply and high-quality service", and exerted greater efforts in business expansion and internal control. Overcoming all the difficulties in its way and forging ahead vigorously, the operation team made remarkable achievements, and led the corporate management to a sound and orderly cycle.

### 8.4 SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE FOLLOWING MATTERS OF THE COMPANY IN 2017

#### 8.4.1 Evaluation on legal compliance of the Company's operations

In accordance with laws and regulations of the State and the Articles of Association and after review, the Supervisory Committee is in the position that: decision-making procedures of the Company during the Reporting Period were in compliance with laws; the Company has established a complete and effective internal control system; Directors and senior management of the Company did not have any behavior that was in breach of laws and regulations or undermined the interest of the Company when performing their duties. The general meetings and Board meetings were convened in accordance with procedures required by relevant laws and regulations and the Articles of Association, and relevant resolutions were valid and effective.

## CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT (Continued)

Members of the Board and senior management of the Company performed their duties faithfully and diligently in accordance with laws and regulations of the State and the Articles of Association. The Board fully implemented all resolutions approved by the general meeting, and the senior management duly executed resolutions of the Board. During the Reporting Period, the Company and senior management of the Company did not have any behavior that was in breach of laws and regulations and the Articles of Association and that has undermined the interest of the Company and Shareholders when performing their duties and exercising their power and rights.

### 8.4.2 Evaluation on financial operation

Having carefully review on the financial system, internal control system and the financial position of the Company during the Reporting Period, the Supervisory Committee believes that the existing internal control system on financial accounting is complete, the Company has a sound financial positions, high-quality assets, and true and accurate recognition and measurement of income, expenses and profit. Deloitte Touche Tohmatsu, the international auditor, has issued an audit report with unqualified opinion on the financial report of the Company for 2017, judging that accounting report of the Company met requirements of Accounting Standard for Business Enterprise and gave a true, accurate and complete view of the Company's financial position, operating results and cash flows.

### 8.4.3 Evaluation on related-party transactions

Related-party transactions between the Company and related parties followed the principle of fairness, impartiality and openness. Both parties strictly exercised their rights and obligations, and fulfilled their disclosure duties by publishing announcements in relation to ordinary related-party transactions in due course. There was no insider trading and behavior that undermined the interest of the Company and Shareholders existing in the contracts, agreements and other documents regarding related-party transactions during the year. In the course of consideration and voting of the related-party transactions above, the Supervisory Committee oversaw the abstaining from voting by connected Directors. As such, the Supervisory Committee is in the position that related-party transactions of the Company were on fair basis, had sufficient pricing supporting and fair and reasonable pricing standards, did not undermine the interest of the Company (particularly the interest of minority shareholders).

### 8.4.4 Evaluation on internal control and risk management

Having reviewed the internal control and risk management system of the Company during the Reporting Period, the Supervisory Committee believes that the Company has built a complete internal control and risk management system and has had an effective execution, and that the Company has an appropriate deployment for the internal audit department and relevant personnel, which plays the role of supervising the execution of internal control.



## CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT (Continued)

The Supervisory Committee will firmly implement the Company's strategic policies, perform its duties within the scope granted by laws and regulations of the State and the Articles of Association to urge the Company to standardize operation and to complete corporate governance, and work hard to protect the interest of Shareholders and the Company and to promote the sustainable development of the Company. Members of the Supervisory Committee will improve their performance through self-development and strengthen supervision on Directors and senior management of the Company, so as to ensure that the interest of Shareholders will be maximized. The Supervisory Committee will enhance supervision on investment, related-party transactions and other significant events and duly perform its duty to ensure that all staff work together to achieve all operating targets of the Company.

**Qu Mei**

*Chairperson of the Supervisory Committee*

Luzhou, the PRC

28 March 2018

# Chapter IX CORPORATE GOVERNANCE REPORT

## 9.1 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 important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees.

During the period from the Listing Date to the end of the Reporting Period, the Company has complied with all code provisions of the Corporate Governance Code and adopted most of the recommended best practice thereof.

## 9.2 MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors, and all Directors and Supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the period from the Listing Date to the end of the Reporting Period.

## 9.3 BOARD OF DIRECTORS

### Composition of the Board of Directors

The Board of the Company comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors.

Pursuant to Rule 19A.54 of the Listing Rules, we enter into contracts with all Directors in relation to, inter alia, compliance with laws and regulations, the Articles of Association and arbitration clauses. We have not signed and do not intend to sign any service contract with any Directors or Supervisors that is not determinable by the employer within one year without paying any compensation (other than statutory compensation).

## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

Directors of the Company during the Reporting Period are as follows:

Name	Gender	Age	Position	Appointment date	Expiry date
Mr. Zhang Qi	Male	44	Executive Director and Chairman of the Board	December 2015	December 2018
Mr. Liao Xingyue	Male	36	Executive Director and General manager	December 2015	December 2018
Mr. Wang Junhua	Male	53	Executive Director and Deputy general manager	December 2015	December 2018
Mr. Chen Bing	Male	47	Non-executive Director	December 2015	December 2018
Mr. Yang Ronggui	Male	55	Non-executive Director	December 2015	September 2017
Ms. Xu Yan	Female	52	Non-executive Director	December 2015	December 2018
Mr. Xie Xin	Male	40	Non-executive Director	September 2017	December 2018
Mr. Gu Ming'an	Male	51	Independent non-executive Director	March 2017	December 2018
Mr. Lin Bing	Male	49	Independent non-executive Director	March 2017	December 2018
Mr. Cheng Hok Kai, Frederick	Male	53	Independent non-executive Director	March 2017	December 2018

### 9.4 DUTIES AND POWERS OF THE BOARD

The Board reports to the general meeting and is responsible for implementation of resolutions of the general meeting. The functions and powers of the Board are set out in the Articles of Association, which include: to convene general meetings, to implement the resolutions of the general meeting, to decide on the business plans and investment plans of the Company, to formulate the plans for annual financial budgets and final accounts, profit distribution plans and plans for the increase or reduction of the registered capital, to decide on the establishment of the Company's management organization, to appoint or remove the general manager, the deputy general manager and other members of senior management, to formulate the basic management systems of the Company and to decide on the establishment of the Company's internal management organization.

### 9.5 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.



## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

During the Reporting Period, the Board convened seven meetings, considered and approved such resolutions as decision-making of significant construction projects, the employment of senior management personnel, organized the training on Directors, Supervisors and senior management, and reviewed the compliance of Directors, Supervisors and senior management with the Model Code.

### 9.6 DUTIES AND POWERS OF THE MANAGEMENT

The Board has authorized the management to be in charge of day-to-day business operation and management, and the management is responsible for implementation of resolutions of the Board and the day-to-day operation and management of the Company. According to the Articles of Association, the functions and powers of the senior management include: to draft the business plans and investment plans, to draft plans for the establishment of internal management organization, to draft basic management system of the Company and to formulate specific rules of the Company. The management team reports to the Board on a regular basis and communicates with the Board when necessary.

### 9.7 INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company complies with the requirement of the Listing Rules, which states that there shall be at least three independent non-executive Directors (accounting for at least one third of the Board) and that at least one independent non-executive Director has appropriate professional qualification or expertise of accounting or relevant financial management.

Each of independent non-executive Directors has entered into the letter of appointment with the Company, with a term of three years, but subject to retirement by rotation and re-election in accordance with the Articles of Association.

The Company has received from each of independent non-executive Directors' annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the opinion that all independent non-executive Directors are independent parties, and believes that they are able to provide independent advice on the business strategy, operating results and management of the Company, therefore protecting the interest of the Company and its Shareholders.

### 9.8 CHAIRMAN AND GENERAL MANAGER

The duties of the Chairman of the Board and the general manager are separate and held by different persons, and have been clearly defined in the Articles of Association.

The Chairman of the Board is mainly responsible for the overall operation of the Board, the Company's strategies, development plans, and the making of material decisions. Executive Director Mr. Zhang Qi holds the post of Chairman. The general manager is responsible for the day-to-day business management of the Company, and the post is assumed by executive Director Mr. Liao Xingyue. The Chairman of the Board is elected by more than a half of all Directors, and the general manager is nominated and appointed by the Board.

## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

The Chairman of the Board 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 operation management.

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

### 9.9 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 of the Company 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 the Company.

### 9.10 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.

### 9.11 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, or 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.

## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.12 ATTENDANCE OF DIRECTORS AT BOARD MEETINGS AND THE GENERAL MEETINGS

During the Reporting Period, the Board held seven meetings, and the attendance of Directors are as follows:

Name	Position	Meetings attended/eligible for attending	Meetings attended by other directors by proxy	Attendance rate
Mr. Zhang Qi	Executive Director and Chairman of the Board	7/7	0	100%
Mr. Liao Xingyue	Executive Director and General manager	6/7	1	85.71%
Mr. Wang Junhua	Executive Director and Deputy general manager	7/7	0	100%
Mr. Chen Bing	Non-executive Director	7/7	0	100%
Mr. Yang Ronggui ( <i>Note 1</i> )	Non-executive Director	5/5	0	100%
Mr. Xie Xin ( <i>Note 1</i> )	Non-executive Director	2/2	0	100%
Ms. Xu Yan	Non-executive Director	6/7	1	85.71%
Mr. Gu Ming'an	Independent non-executive Director	4/5	1	80%
Mr. Lin Bing	Independent non-executive Director	5/5	0	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	5/5	0	100%

*Note:*

1. Mr. Xie Xin was approved and appointed as a non-executive Director by the first extraordinary general meeting of the Company for 2017 on 12 September 2017, with a term from 12 September 2017 to the end of the first session of the Board of Directors. Mr. Yang Ronggui resigned as a non-executive Director with effect from 12 September 2017.



## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

During the Reporting Period, three general meetings were held, and the attendance of Directors are as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and Chairman of the Board	3/3	100%
Mr. Liao Xingyue	Executive Director and General manager	3/3	100%
Mr. Wang Junhua	Executive Director and Deputy general manager	3/3	100%
Mr. Chen Bing	Non-executive Director	3/3	100%
Mr. Yang Ronggui ( <i>Note 1</i> )	Non-executive Director	2/3	66.67%
Mr. Xie Xin ( <i>Note 1</i> )	Non-executive Director	0/0	/
Ms. Xu Yan	Non-executive Director	3/3	100%
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Lin Bing	Independent non-executive Director	2/2	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%

*Note:*

1. Mr. Xie Xin was approved and appointed as a non-executive Director by the first extraordinary general meeting of the Company for 2017 on 12 September 2017, with a term from 12 September 2017 to the end of the first session of the Board of Directors. Mr. Yang Ronggui resigned as a non-executive Director with effective from 12 September 2017.

### 9.13 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. All Directors have the right to access the Board meeting documents and related 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.

### 9.14 TRAINING OF DIRECTORS

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. During the Reporting Period, the Company also arranged for the Directors, Supervisors and relevant senior management to attend the lecture on “inside information and its disclosure” 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, Ms. Xu Yan, Mr. Xie Xin, 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.

### 9.15 COMMITTEES UNDER THE BOARD

The Board has delegated a number of functions to corresponding committees. The Company has set up three special Board committees, namely, the strategy committee (“Strategy Committee”), the nomination and remuneration committee (“Nomination and Remuneration Committee”) and the audit committee (“Audit Committee”).

#### 9.15.1 Strategy Committee

The Strategy Committee 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 the Company, making proposals on major events and supervising the implementation of annual operating plans and proposals.

During the Reporting Period, the Strategy Committee held one meeting, considering and approving resolutions in relation to the strategic development plan, the annual business plan and the annual capital plan of the Company.

Attendance of members of the committee is recorded as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Chen Bing	Non-executive Director	1/1	100%
Mr. Zhang Qi	Executive Director and Chairman of the Board	1/1	100%
Mr. Lin Bing	Independent non-executive Director	1/1	100%

### 9.15.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee 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.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings, considering and approving the resolution in relation to recommendation of candidates for Directors (after taking into account the Articles of Association, the diversity policy of Directors and the educational background, experience, skills, knowledge and other aspects of the candidates for Directors) and the chief financial officer, reviewing the independence of independent non-executive directors of the Company and discussing about resolutions in relation to remuneration policies for Directors, Supervisors and senior management and the structure of the Board.

Attendance of members of the committee is recorded as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Zhang Qi	Executive Director and Chairman of the Board	2/2	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%



## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.15.3 Audit Committee

The Audit Committee 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. Xie Xin, 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.

During the Reporting Period, the Audit Committee held two meetings, considering and approving the interim auditor's report, the interim consolidated financial statements, the interim results announcement and the interim report for 2017, the report on the risk management and internal control system of the Company, and the resolutions in relation to the prioritized arrangement for possible misconducts in financial reporting, internal control and other aspects and the arrangement for audit work during the Reporting Period.

Attendance of members of the committee is recorded as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance</b>
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Xie Xin	Non-executive Director	2/2	100%

### 9.16 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 11 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 in this annual report:

<b>Remuneration range (RMB'000)</b>	<b>Number of people</b>
500–600	1
400–500	1
200–300	1
Below 100	1

### 9.17 DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability to operate as a going concern. 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 2017.

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.

### 9.18 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 meeting 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 Shareholders' class meeting and clarify the subject matter of the meeting. The Board shall convene a Shareholders' class meeting 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.

Shareholders have the right to submit ex tempore motions to the general meeting. According to the Articles of Association, when a general meeting is convened by the Company, shareholders who individually or collectively hold more than 3% (inclusive) of voting shares of the Company shall be entitled to put forward ex tempore motions to the Company. The Company shall include matters in the ex tempore motions that fall within the scope of functions and powers of the general meeting into the agenda.

Shareholders have the right to put inquiries. The Company now lists the following communication information to facilitate inquiries on matters about which Shareholders are concerned, and the Company will respond to these inquiries in an appropriate way and in a timely manner:

Address: No. 16, Baizi Road, Jiangyang District, Luzhou, Sichuan Province, PRC  
Telephone number: +86 830 3194768  
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.



### 9.19 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.

### 9.20 RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sufficient risk management and internal control system and is also responsible for maintaining the effectiveness of legal systems to protect investments of Shareholders and assets of the Company, and reviewing the effectiveness of the system on an annual basis with the support of the Audit Committee.

The risk management structure of the Group is formed with "Three Defense Lines (三道防線)", namely the business departments, the risk management department and the internal audit department. The internal audit department is the most important department in risk management and internal control, conducting internal audit and supervision based on issues and risks, and following up the rectification progress of issues identified in the audit. The Company also applies the quality management system to establish internal and third-party review procedures, during which, the Company identifies, assesses and manages significant risks through annual audit and review of its operation, financial position and production, and assesses the effectiveness of the internal control system through third-party audit and review.

The Board also reviews the effectiveness of the financial operation, compliance, risk management and internal control through the Audit Committee, which covers the adequacy of resources for accounting and financial reporting functions, qualification and experience of staff, and the training for staff and relevant budgets.

During the Reporting Period, the Board conducted relevant review and believes that the risk management and internal control system of the Company was effective and sufficient. However, as the system aimed to manage but not eliminate risks of failing to achieve business goal, the Board could only make reasonable but not absolute guarantee against material misrepresentations or losses.

## Chapter IX CORPORATE GOVERNANCE REPORT (Continued)

The Company has formulated an inside information policy, pursuant to which, the Company shall conduct a review at least once a year to ensure the policy complied 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 confidential before fully disclosing such information to the public.

### 9.21 INTERNATIONAL AUDITOR AND REMUNERATION OF INTERNATIONAL AUDITOR

A statement by the international auditor of the Company regarding its reporting obligations under the consolidated financial statements is set out in the “Independent Auditor’s Report” on Pages 125 to 130 of this annual report.

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

<b>Charges for services</b>	<b>Amount</b> <i>(RMB'000)</i>
Annual audit services	1,800
Interim financial review services	300
Total charges	2,100

### 9.22 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In accordance with requirements set by relevant documents, the Company incorporated Party building into the Articles of Association, which includes duties of Party organizations, working bodies, operation mechanism and basic guarantee. On 15 June 2017, the Company approved the amendments to the Articles of Association by way of resolution, and the revised version of the Articles of Association has been published on the website of the Hong Kong Stock Exchange.

### 9.23 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 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 2018 to ensure compliance with Rule 3.29 of the Listing Rules.

### 9.24 REGULATORY REVIEW

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

### 9.25 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.



# Chapter X Environmental, Social and Governance Report

## ABOUT THIS REPORT

This report is the second annual environmental, social and governance report issued by the Group. The contents in this report are prepared pursuant to the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules, among which relevant section numbers are corresponding to those set out in “Subject Areas, Aspects, General Disclosures and KPIs” of the Environmental, Social and Governance Reporting Guide. The contents of this report reflect such matters relating to the environmental and social aspects of the Group as determined by the Board of the Company as material after evaluation. This report covers the primary source of the Company’s operating revenue – business revenue from water supply and sewage treatment business and the period of which falls within the Reporting Period, with additional disclosure of certain matters outside of the Reporting Period.

## A ENVIRONMENT

### A1 EMISSIONS

The Company stringently complies with laws and regulations such as the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Law on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the PRC Law on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and the PRC Law on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》). By taking “Governing Water Pollution, and Benefiting from Water Environment” as its own duty, the Company minimises the emissions of pollutants through formulation of environmental management policies, establishment of its environmental management system, adoption new techniques of tap water supply and sewage treatment and other methods to contribute the power of Xinglu Water for creation of the concept that “lucid waters and lush mountains are invaluable assets”.

During the Reporting Period, the tap water supply business and the wastewater treatment business of the Company were not involved in any material events in relation to litigation arising from violation of environmental regulations.

#### *A1.1 EMISSIONS MANAGEMENT*

The Company continues to strengthen the management of waste gas, wastewater and solid wastes generated in tap water supply business and wastewater treatment business. According to the principles of environmental management, the sewage company has formulated the “Decree Promulgated for Objectives of Quality, Environment and Occupational Health and Safety Management” and specified the positions and responsibilities of various departments in the environmental management system, allocated measurable environmental management objectives, including compliance with regulations, pollution prevention, continuous improvement, etc., and carried out analysis and assessment on the completion status of environmental objectives, and conducted internal audit at least once each year.

## Chapter X Environmental, Social and Governance Report (Continued)

Emissions	Source of emissions	Countermeasures:
Waste gas	In the tap water supply business, emissions of waste gas mainly exist in fugitive emissions from the storage and use of chlorine.	<ul style="list-style-type: none"> <li>• The Company installs a vacuum seal-off device and air distribution system in the chlorine repositories to reduce random emissions of chlorine gas and avoid chlorine leakage incidents. If there is leakage of chlorine gas, the automatic control system will start the chlorine gas absorption tower to absorb the leaked chlorine and eliminate the impacts arising from the leakage;</li> <li>• The Company has gradually adopted on-site preparation of ClO<sub>2</sub> to carry out chlorine disinfection to avoid the potential harm caused by storage and use of liquid chlorine from the source.</li> </ul>
	In the wastewater treatment business, waste gas emissions mainly derive malodorous gases generated during the production process of the sewage treatment plant.	<ul style="list-style-type: none"> <li>• In constructing and renovating the sewage treatment plant, the Company selects advanced sewage treatment techniques and equipment, and optimizes the layout of facilities;</li> <li>• Afforestation work in the sewage treatment plant area and its surroundings is enhanced to reduce the influence of odor on the environment.</li> </ul>
Wastewater	In the tap water supply business, wastewater mainly derive from the wastewater discharged from the sedimentation tanks and backwashing water in filter tanks during the production process as well as daily wastewater.	<ul style="list-style-type: none"> <li>• The Company handles the wastewater discharged from the sedimentation tanks and daily wastewater through wastewater treatment facilities, and discharges the wastewater into municipal wastewater network after attaining relevant standards;</li> <li>• The Company installs extended pipelines to extend backwashing water in filter tanks to 300 meters away from the water source protection zone for harmless discharge.</li> </ul>

## Chapter X Environmental, Social and Governance Report (Continued)

Emissions	Source of emissions	Countermeasures:
	<p>In the wastewater treatment business, wastewater mainly derives from urban sewage after purification by sewage treatment facilities as well as production and domestic wastewater of sewage treatment plants.</p>	<ul style="list-style-type: none"> <li>• The Company handles the industrial and household wastewater generated by wastewater treatment facilities in the plants after reflow, together with the wastewater transmitted from the plants and communities, to be discharged into the Yangtze River after fulfilling relevant standards, such as Urban Wastewater Treatment Plant Discharge Standards (城鎮污水處理廠污染物排放標準) (GB18918-2002);</li> <li>• The Company adopts intercept processing for pollutants in wastewater to raise the efficiency of pollutant treatment;</li> <li>• The Company regularly conducts checking of the main wastewater interception pipelines to ensure the proper functioning of the main pipelines, and to eliminate environmental pollution accidents due to leakage and overflow of main pipelines.</li> </ul>
Solid wastes	<p>The solid wastes generated from the tap water supply business mainly include dried sludge cakes, laboratory sample wastes generated during production process as well as household wastes.</p>	<ul style="list-style-type: none"> <li>• The Company adopts the concentration process for those sludge formed by high turbidity wastewater discharged from sedimentation tanks and filter tanks after concentration and dehydration, and adopts the dehydration process through vacuum filter or centrifuge, then regularly transports solid wastes including domestic wastes after handling to waste treatment plant for disposal;</li> <li>• The Company conducts sorted recycling of chemical sample wastes generated from water testing and delivers them to a qualified agency for unified disposal.</li> </ul>



## Chapter X Environmental, Social and Governance Report (Continued)

Emissions	Source of emissions	Countermeasures:
	<p>The solid wastes generated from wastewater treatment business mainly include sludge deriving from urban sewage treatment, chemical sample wastes and household wastes.</p>	<ul style="list-style-type: none"><li data-bbox="895 437 1455 950">• In order to dispose of the large amount of sludge generated in the wastewater treatment process in a “harmless, reduced and resource-based” way, the sludge, upon concentration and dehydration and other treatments by the Company, is transported to a qualified third-party landfill site for unified sanitary landfilling to achieve a harmless disposal of the sludge. The Company establishes a new sludge desiccation project and adopts a centralised treatment method, such that the moisture content of sludge is reduced from 80% to less than 60%, and the sludge quality and volume are reduced by one time, so as to achieve sludge reduction. By cooperating with the brick factory and other manufacturers, the sludge is used to manufacture bricks to realise the recycling of sludge.</li><li data-bbox="895 961 1455 1209">• The Company strictly abides by the standardized management regulations for solid wastes and hazardous wastes for industrial solid wastes and hazardous wastes produced in the course of production, experimentation, or inspection and maintenance, then performs sorted collection, centralized storage, regular reporting, and compliant disposal.</li></ul>

## Chapter X Environmental, Social and Governance Report (Continued)

In addition, the Company has obtained ISO14001 Environmental Management System certificate from the Quality Assurance Centre of China Association for Quality (中國質量協會質量保證中心). The Company stringently implements the aforesaid standards during the entire process of production and supply, and strengthens the operation of environmental management system.

### **Case: Sum Up the Problem and Take Immediate Actions and Rectifications**

On February 4, 2017, the Company received the notice of environmental monitoring from the Environmental Monitoring and Law Enforcement Team of Sichuan (chuan huan jian du [2017] No. 4). According to the results of the sampling test on some of the wastewater treatment plants in Luzhou City conducted by the Environmental Monitoring Master Station of Sichuan Province, it was found that some factors of the wastewater discharged from the Company's wastewater treatment plants exceeded the standard or some of the automatic monitoring equipment were not qualified in contrast with the indicator.

After receiving notification of the monitoring result, the Company attached high importance and immediately held a special meeting to reflect on the problems existed in production and management, conscientiously carried out examination and analysis on root causes of the problems, and promptly formulated solutions to ensure that the problems were rectified in a timely manner.

### A1.2 EMISSION PERFORMANCE

The Company's wastewater treatment business is an environmental protection business. Through sewage treatment each year, it helps to reduce the emission of large amount of Chemical Oxygen Demand ("COD"), ammonia, and other substances in urban sewage and protect the natural environment.

During the Reporting Period, a data sheet concerning the Company's main waste gas, wastewater, solid waste and greenhouse gas emissions is as follows:

**Data sheet for emissions in 2017**

Type of discharge	Unit	Data
Total discharge of urban sewage reaching wastewater discharge standards <sup>(1)</sup>	10kt	6,025.4
COD reduction for urban sewage discharge	tons	9,522.5
Discharge of COD from urban sewage <sup>(2)</sup>	tons	1,001.5
Ammoniacal nitrogen reduction for urban sewage discharge	tons	1,284.3
Discharge of ammoniacal nitrogen from urban sewage	tons	58.7
Discharge of bottom water from tap water supply business <sup>(3)</sup>	10kt	329.2
Wastewater discharge from production and operation of tap water supply business, excluding bottom water	tons	1,082.4
Generation of hazardous waste	tons	4.8
Density of hazardous waste generation	kg/ RMB million	4.4
Rate of hazardous waste disposal	%	100.0
Generation of non-hazardous waste	tons	49,934.8
Density of non-hazardous waste generation	tons/ RMB million	46.2
Rate of non-hazardous waste disposal	%	100.0
Total greenhouse gas emissions	tons	94,960.5
Density of greenhouse gas emissions	tons/ RMB million	87.8

*Note:*

- <sup>(1)</sup> Include wastewater discharge from production and operation of wastewater treatment business;
- <sup>(2)</sup> Include only COD emissions from the wastewater treatment business;
- <sup>(3)</sup> Bottom water from the tap water supply business is non-polluted water and does not require treatment.

For hazardous gas generated from solid waste, we have introduced and adopted international advanced technology and continued to enhance the treatment equipment to ensure that harmful components contained in the flue gas have been effectively removed and the emissions met the emission standards.



### A2 Use of Resources

As a production-based enterprise, the Company increases the level of integrated use of resources and reduce the density of greenhouse gas emissions as the objectives of corporate resource management. Through implementation of effective resource management, it provides environmentally friendly products and services to the industry and society, and achieves all-round sustainable development for enterprises industries and the society.

#### *A2.1 Resource management*

As an enterprise engaged in tap water production and wastewater treatment, the Company highly treasures water resources and energy as valuable assets. The Company creates a green, low-carbon enterprise through formulation of a resource management system, improvement of operational management standards and use of new equipments and new techniques, as well as enhancement of utilization efficiency of water resources and energy.

<b>Energy consumption</b>	<b>Management measures</b>
Operational management	<ul style="list-style-type: none"><li>• Formulate the monthly production plan and targets for the control of total energy consumption to exert all-round and multi-level control of the consumption of energy and raw materials;</li><li>• Formulate a plan on production technology improvement, improve and update production techniques, facilities and equipment, particularly improve the performance of high energy-consuming equipment such as pumps;</li><li>• Implement a performance appraisal system for employees, require them to submit a target plan on time every month and give prompt feedbacks. Re-assessment is conducted by the Company to raise enthusiasm and initiative of employees.</li><li>• In the tap water supply business, the Company applies new pipeline technique and environmental friendly water supply and treatment technologies, and uses energy-saving and water-saving tools to reduce energy consumption during water production and water supply processes;</li></ul>

Energy consumption	Management measures
Office management	<ul style="list-style-type: none"> <li>• In the wastewater treatment business, the Company actively conducts research and testing on the production technology and techniques, combines with the actual conditions of production and operation, lower the operating power of equipment, improves the utilization effect of high energy-consuming equipment such as pumps, and reduces the use of energy.</li> <li>• The Company adheres to the concept of “energy saving is not a slogan but is a kind of action” for advocacy of a green office;</li> <li>• Strengthen the supervision and inspection of the use of electricity and gasoline to eradicate the occurrence of unmanned lights and unmanned air conditioning.</li> </ul>

Consumption of water resources	Management measures
Production and operation of tap water supply	<ul style="list-style-type: none"> <li>• Optimize layout of pipe net work, upgrade old pipe network, enhance patrol of pipe network to minimise the leakage rate of pipe network;</li> <li>• Actively promote technological renovation and upgrade, use high-quality pipes and valves, and reduce water pollution caused by inferior pipes and valves;</li> <li>• Drain the fire hydrants and blow-off pipes according to the actual condition of the regional pipeline network to ensure water quality compliance.</li> </ul>
Production and operation of wastewater treatment	<ul style="list-style-type: none"> <li>• Reuse of reclaimed water mainly for production use (such as equipment flushing in sludge dewatering room) and afforesting in the plant, with reuse of reclaimed water amounting to around 630kt in 2017;</li> <li>• Build and operate system for reuse of recycled water which can save tap water usage by around 650kt/year.</li> </ul>
Daily office management	<ul style="list-style-type: none"> <li>• Strengthen the management of water saving in office, advocate employees to turn off faucets timely and eliminate the phenomenon of running water;</li> <li>• Promote the use of water saving sanitary and water distribution appliances.</li> </ul>

**Case: Improve processes and Reduce Consumption of Phosphorus Remover**

In the wastewater treatment operation, the addition of chemical agents to active sludge is one of the important processes for removal of phosphorus, and is also a process which consumes relatively large amount of materials. The Company organized technical and processing personnel to carry out technical upgrading of and renovation on the equipment and techniques for the Naxi Wastewater Treatment Plant, and conducted on-site testing for dosing phosphorus remover. The optimal dosage for the Naxi Wastewater Treatment Plant is determined to be 0.2ml/1000ml, which can achieve better result of phosphorus removal, and also effectively reduce the dosage of phosphorus remover. The Company shared the experimental methods and testing results of the addition of phosphorus remover with other wastewater treatment branches of the Company, in order to enable the technical personnel of each plant, in collaboration with the laboratory personnel, to find out the most suitable dosing concentration of chemical phosphorus removal for the unit through scientific testing, thereby reducing the dosage of phosphorus remover, and saving materials.

**Case: Equipment Upgrade, Energy Saving and Emission Reduction**

In order to lower the level of energy consumption of processing equipment and improve the efficiency of energy use, Erdaoxi Treatment Plant conducted a thorough investigation on energy consumption of the processing equipment. It was found that the agitators with underwater plug flow used in the wastewater treatment biochemical system have been in use for many years which requires higher energy consumption. In this regard, the Company selected 4 high-efficiency permanent magnet electric agitators to replace the old agitators after comparing the agitator equipment. When compared to the conditions before and after use, energy consumption of the newly installed high-efficiency permanent magnet electric agitators are around 1 times less than the old one, which can effectively lower power consumption and reduce greenhouse gas emissions.



## Chapter X Environmental, Social and Governance Report (Continued)

### A2.1.1 Performance in Resource Use

The Company continues to enhance resource management, improve the efficiency of resource use, and effectively reduce energy consumption and greenhouse gas emissions of per unit of output.

During the Reporting Period, a data sheet concerning consumption of the Company's resources is as follows:

#### Data sheet for consumption of resources in 2017

Type of resources	Unit	Data
Diesel	litre	30,421.0
Gasoline	litre	165,915.0
Natural gas	m <sup>3</sup>	46,598.4
Purchased electricity	kwh	80,501,736.0
Total energy consumption for standard coal	tons of standard coal	10,172.0
Density of comprehensive energy consumption	tons of standard coal/ RMB million	9.4
Total water consumption	10kt	10,805.8
Density of water consumption	10kt/RMB million	10.0

## A3 ENVIRONMENT AND NATURAL RESOURCES

By taking "Governing Water Pollution, and Benefiting from Water Environment" as the mission, the Company proactively responds to creation of national ecological civilization, and in combination with its own characteristics, integrates environmental and natural resources protection into business operation and management, identifies and evaluates all aspects and entire process of the environmental impact factors, and fully reduces the influence of business operation on the environment and realizes coordinated development with the natural environment.

## Chapter X Environmental, Social and Governance Report (Continued)

Being an enterprise engaged in tap water supply and wastewater treatment, the Company's operation and development is closely linked with the state of natural water resources. With respect to tap water supply business, the Company strictly follows the requirements of the water licenses to collect water and actively protects the natural environment near the source of water intake; with respect to wastewater treatment business, the Company actively carries out municipal environmental protection projects conducive to reducing the density of discharge, protecting and improving the surface water environment. Strict and advanced processes and technologies are adopted to remove harmful materials in wastewater, and it is guaranteed that after reaching discharge standards, the wastewater is discharged so as to reduce the impacts on the ecological function of rivers by wastewater, obviously in favour of the environment.

**Tap water supply  
of approximately  
155.3 million  
tonnes in 2017**

**Wastewater  
treatment of  
approximately  
95.3 million  
tonnes in 2017**

**COD reduction of  
9,522.5 tons  
in 2017**

**Ammonia  
nitrogen  
reduction of  
1,284.3 tons  
in 2017**

Operation and management	Management measures
Management of water intake	<ul style="list-style-type: none"><li>Stringently comply with relevant provisions of the PRC Water Law (《中華人民共和國水法》) and Municipal Water Supply Administrative Regulations in Sichuan Province (《四川省城市供水管理條例》), and formulate related systems of internal Administrative Regulations on Health and Protection (《衛生防護管理規定》) and Management System on Water Source Protection Area (《水源保護區管理制度》) of the Company to standardise and manage the water source protection works;</li><li>Enhance inspection and monitoring of water quality from the source and water intakes, timely report on the problems discovered to local environmental protection departments, and actively cooperate with the health and epidemic prevention department and the environmental protection department for the protection of water sources;</li><li>The Company jointly launched an emergency linkage platform of water supply enterprises in the upper stream of Yangtze River with water supply enterprises in Chongqing, Jiangjin and Yibin, established a sound emergency system, realized the sharing of information and technologies, actively promoted the protection and emergency response of the source of Yangtze River to effectively protect the ecological environment of the water source.</li><li>Intake water from the Yangtze River with water licenses, and obtain appropriate amount of water to ensure getting water sustainably. Therefore, we do not have any water sourcing issues.</li></ul>
Discharge management	<ul style="list-style-type: none"><li>The Company carries out treatment to wastewater which is discharged after fulfilling relevant standards, such as Urban Wastewater Treatment Plant Discharge Standards (城鎮污水處理廠污染物排放標準) (GB18918-2002) and gradually meeting the Water Pollutants Discharge Standards of Minjiang River and Tuojiang River Basin (岷江、沱江流域水污染物排放標準).</li></ul>



### Operation and management

### Management measures

Project construction, operation and management

- Strict implementation of the “three simultaneous” system and environmental impact assessment system such that environmental impact assessment reports should be prepared in accordance with requirements and obtained approval and reply from government departments for all newly-built, renovated and expanded projects;
- Ensure that environmental protection measures are put in place during project construction and daily operations to reduce the impact on the natural environment;
- The Company actively starts various publicity and training activities for environmental protection to enhance employees’ environmental awareness and abilities. In 2017, the Company organized a total of 81 trainings and other activities for publicity of environmental protection, accumulating more than 3,000 participants.

## B SOCIETY

### B1 EMPLOYMENT

The Company stringently complies with provisions of laws and regulations in relation to employment such as the PRC Labour Law (《中華人民共和國勞動法》) and the PRC Labour Contract Law (《中華人民共和國勞動合同法》). Adhering to the core values of “innovation and excellence as well as harmony between human and water”, the Company insists in equality and standardized employment, ensures that each employee can be treated in a fair and just manner through continuous building, improvement and implementation of mechanisms and systems relating to employee rights such as recruitment and remuneration so as to pragmatically safeguard their legitimate rights and interests. As of the end of the Reporting Period, the Company has a total of 775 employees.

## Chapter X Environmental, Social and Governance Report (Continued)

The Company did not violate any law or regulation on employment during the Reporting Period.

### **Employment system**

### **Management measures**

Recruitment and termination

The Company formulates internal rules such as the “Administrative Measures for Employee Recruitment” (《員工招聘管理辦法》), set up legal and compliant conditions for recruitment and termination, and established harmonious and reasonable labour recruitment and termination system. The Company insists on the principles of selecting outstanding talents through competition for positions under the principle of openness and equality, and enters into labour contracts with employees in compliance with laws after recruitment. In 2017, the rate of entering into labour contracts with employees was 100%, and employee turnover rate was 4.39%.

Remuneration

The Company formulates the “Remuneration Management Measures” (《薪酬管理辦法》) to provide employees with competitive remuneration, pay in full for pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and other basic social insurance, and offer additional medical insurance, housing funds and other welfare benefits to share with them the results of the development of the Company.

Performance appraisal and promotion

The Company formulates the “Performance Appraisal Implementation Measures” (《績效考核實施辦法》), and carried out assessment on two levels monthly, quarterly and annually, in which the Group is responsible for carrying out assessment on the leaders, middle management cadres, each department and subsidiary of the Company, while each department and subsidiary is responsible for carrying out assessment on the unit employees, and promoting outstanding employees. In addition, the Company has established the “Hierarchical Administrative Measures for Position Development” (《崗位發展層級管理辦法》), stipulating the career development plans and promotion standards for employees according to the four categories of management, technology, production services and functions, respectively, so as to provide employees with equal opportunities for career development.

## Chapter X Environmental, Social and Governance Report (Continued)

<b>Employment system</b>	<b>Management measures</b>
Attendance and vacation	The Company complies with the “Labour Contract” (《勞動合同書》) and the “Administrative Regulations on Labour Contract” (《勞動合同管理規定》), and divides the working hours of employees into two categories in accordance with the job characteristics and types of work of employees, namely, the standard working hour system and integrated calculation of working hour system, i.e. the standard working hour system is eight hours per day or 40 hours per week; the integrated calculation of working hour system regards a year as time period, and work duration should be no more than the statutory working hours. In addition, the Company fully guarantees employees’ rights for maternity leaves and annual leaves.
Equality, diversity and anti-discrimination	The Company adheres to the principle of equality, diversity and anti-discrimination by formulating the Regulations Concerning the Labour Protection of Female Staff and Workers(《女職工勞動保護規定》) and other systems and measures, fully respects and protects the legal rights of female employees and prevent the emergence from discrimination incidents.



### **Case: Internal Public Competition to Recruit and Promote Outstanding Talents**

In 2017, insisting on the principles of selecting outstanding talents through competition for positions under the principle of openness and equality, in adherence to the attitude of upholding the combination of ethnics and capabilities, recruitment and screening of outstanding talents, the Company held an open competitive recruitment for middle-level management personnel and supervisors. Among them, the competitive recruitment of the middle-level management personnel is divided into three evaluation parts: competency, work ability, live speech and defense. Finally three junior level outstanding employees were promoted as middle-level management personnel by fast-track promotion; one supervisor was promoted as middle-level management personnel; seven former middle-level management personnel were lost in the competitive recruitment; the competitive recruitment of supervisors is divided into two assessment parts, namely preparation of report for competitive recruitment and live defensive speech. In the end, nine junior excellent employees were promoted as supervisors and 6 former supervisors were lost in the competitive recruitment.



Through the launch of internal public competitive recruitment, the Company broadened the channel for staff selection and employment, such that outstanding talents could be retained and selected, greatly stimulating work enthusiasm of the majority of employees, and raising the corporate core competitiveness. In the future, the Company will also further accelerate human resources and administration reforms, gradually forming an employment mechanism which allows staff promotion and demotion as well as increase and decrease in remuneration.

**Case: Cooking Competition for Elite Females**



On the International Working Women’s Day (8 March), the Company’s trade union organized the “Cooking Competition for Elite Females” among various departments and subsidiaries to allow female employees to greatly show their talents and demonstrate their superb cooking skills in daily lives. Female employees, being highly enthusiastic and active, participated in the activity. Male employees also actively joined in and acted as assistants for female employees. During the event, female employees temporarily laid down their rigorous attitude toward work and began to cook their dishes of specialty such as pumpkin pies, dumplings and hotpots etc.. Some of the employees even showcased their extraordinary culinary arts and received everyone’s praise again and again. This event did not only manifest the cooking skills and demeanour of female employees, but also enhance the relations among employees and thus strengthen the Company’s cohesion.

**Table for Employee Performance in 2017**

<b>Name of indicator</b>	<b>Unit</b>	<b>Type</b>	<b>Data</b>
Number of employees by category – gender	Person	Male	498
		Female	277
Number of employees by category – age	Person	Below 30	170
		Aged 30–50	501
		Above 50	104
Number of employees by category – academic qualifications	Person	College or below	571
		Bachelor degree	196
		Master degree	8
		or above	

### B2 HEALTH AND SAFETY

The Company upholds the concept that “benefits without guarantee on safety and environmental protection are not preferred, and efficiency without guarantee on safety and environmental protection is not preferred”, and formulates relevant internal management systems, improves production safety and occupational health and safety systems to protect the health and safety of employees in strict compliance with the Law of the PRC on Production Safety (《中華人民共和國安全生產法》) and the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and other laws and regulations.

During the Reporting Period, the Company did not experience any incidents relating to incompliance with relevant laws and regulations on health and safety.

#### *B2.1 Safety Management*

The Company insists “on the basis of reinforcing the safety awareness of employees, focused on calling for discharge of responsibility of junior work groups, with breakthrough in inspection, checking and governance on hidden dangers for production sites”, strengthens establishment of the safety management system, mechanism and institutions, enhances safety inspections, emergency management, as well as education and trainings, and strives to achieve safety without occurrence of incident. The Company invested RMB5.35 million in safety in 2017. During the Reporting Period, the Group did not experience any work-related fatalities, serious injuries or occupational diseases. Total number of working hours for loss arising from work injuries was zero.

**Diagram of Safety Management Mechanism**





### Management system

### Management measures

System and mechanism on safety management

In stringent compliance with the “Regulations Governing Five Implementations of Accountability System for Corporate Safe Production” (《企業安全生產責任體系五落實五到位規定》), the “Technical Specification for Operation, Maintenance and Safety of Urban Water Plants” (《城鎮供水廠運行、維護及安全技術規程》) (CJJ58-2009), and “Basic Norms for Work Safety Standardization of Enterprises” (《企業安全生產標準化基本規範》) (AQ/T9006-2010), the Company has formulated nearly 60 internal systems such as the “Targeted Management of Production Safety and Targeted Assessment Management System” (《安全生產目標管理及目標考核管理制度》), and the “Management System for Production Safety Accountability System” (《安全生產責任制的管理制度》) to fully carry out the accountability system for safe and environmental-friendly production, and management system for safe and environmental protection as well as occupational health, so as to standardize safe production.

The Company obtains the “Grade II Work Safety Standardization” certification for its tap water supply business, and the “Grade III Work Safety Standardization” certification for its wastewater treatment business. The Company continues to enforce the above standards, and constantly conducts self-investigation, optimization and improvement of the requirements concerning the first-tier and second-tier elements of the existing management system on safe production.

Organizational structure of safety management

The Company sets up the Committee for Safety, Environmental Protection and Occupational Health (the “Safety Committee”) as the highest authority for the Company’s safety management and forms the organizational structure of safety management from the Safety Committee, the Safe Production Department, subsidiaries, work groups to the employees. Under the leadership of the Safety Committee, the Company regularly convenes meetings relating to safe production on a monthly basis, checks and summarizes the implementation of the safety work plan and organises study on laws and regulations regarding safety for employees.

<b>Management system</b>	<b>Management measures</b>
Inspection for safe production	The Company proactively carries out hazard identification, risk assessment, risk control, forms a dual-driven safe production, inspection and management model which integrates the self-investigation by subsidiaries and functional departments and supervision by safe production department, and thus the inspection tasks for safe production are conducted on a regular basis. By the end of 2017, the Company has conducted a total of 101 investigations in safe production with a total of 316 hidden dangers identified, among which 316 hidden dangers were rectified, with the rate of rectification on safety of 100%. The Company comprehensively achieved objectives of safe production work and indicators for incident control and was awarded the Municipal First Prize of Safe Production.
Emergency management	The Company formulates 1 integrated emergency response plan, 13 targeted emergency response plans and several on-site disposal plans to form an improved system of emergency response plan. In addition, the Company regularly organises flood control emergency response, prevention of heat-stroke, safety and prevention trainings on geological hazards and others to boost the ability of the Company in emergency response and coordination.
Safety education	The Company actively reinforces standardized management of the three-tier safety education for employees and provides trainings for employees on orientation and daily safety practices, trainings for job-holders of special categories and assessment on safety technologies, in the form of internal trainings by subsidiaries and functional departments in combination with external trainings, and conduct monthly campaigns for safety awareness on a regular basis to raise employees' awareness of safe production. In 2017, 100% of the chief persons-in-charge and safety management personnel of the Company hold safety management qualifications and certificates. A total of 14 safety trainings were organized, with accumulative participation of 541 people in trainings.

### *B2.2 Occupational Health Management*

The Company places emphasis on protection of its employees holding special positions from the impact of occupational diseases, adheres to the principle of “Management of Health is Essential for Management of Production” and has established a sound management system of occupational health and obtained OHSAS18001 certification on occupational health and safety management system to safeguard occupational health of its employees.

The Company formulates the “Management System of Occupational Health and Safety” (《職業健康安全管理制度》) to specify the responsibilities of the concerned staff, and perform supervision and assessment;

The Company regularly evaluates risk factors of occupational health, and constructs better protective facilities for occupational disease hazards, and offer suitable labour protection supplies;

The Company organizes occupational health check-up for employees holding positions with hidden toxic and hazardous dangers, maintains files relating to supervision and care of occupational health, and grants health care allowance;

The Company vigorously initiates publicity activities for occupational health, e.g. “Week for Prevention of Occupational Diseases”.

## **B3 DEVELOPMENT AND TRAINING**

The Company consistently implements talent strategies, formulates the “Management System of Employee Training” (《員工培訓工作管理制度》), the “Administrative Measures for Internal Trainer” (《內訓師管理辦法》), the “Administrative Measures for Apprenticeship” (《師帶徒管理辦法》), the “Administrative Measures for Professional Titles” (《職稱管理辦法》) and other management systems and measures, establishes a comprehensive and multi-level training model to meet the development requirements of employees at different positions. Meanwhile, the Company vigorously organizes trainings for developing job skills and various skill competitions to help employees in the further advancement of specialised knowledge, increased opportunities in career path and the deepened feeling of pride and sense of achievement of our employees.



## Chapter X Environmental, Social and Governance Report (Continued)

<b>Type of employee</b>	<b>Training measures</b>
Management personnel	The Company carries out management trainings in relation to practical performance management and the comprehensive management system for quality, environment and occupational health and safety, seeking to provide assistance to management personnel in mastering management skills and laying a solid foundation for effective team work.
Technical specialists	The Company organizes technical trainings and trainings for obtaining certificates for technical staff, such as holders of special categories, e.g. electricians and welders, thereby advancing professional expertise and skills for technical staff, and increasing the rate of holding valid job certificates.
Service staff	The Company conducts training concerning external services and external service communication so as to achieve professional cultivation for service staff and service level enhancement.

During the Reporting Period, approximately RMB358,000 was invested in employee training by the Company and 125 training sessions were conducted, with 4,017 people attended in trainings. Table for performance of the Company's staff trainings is as follows:

### Sheet for performance of staff trainings in 2017

<b>Name of indicator</b>	<b>Unit</b>	<b>Type</b>	<b>Data</b>
Average training time by gender	Hours	Male	4.1
		Female	3.6

**Case: Conduct Trainings on Technical Knowledge of Processing**

To better satisfy the training needs of employees, the Company adopts a combined method of employee training needs collection and training satisfaction surveys to set up training courses for facilitating faster and better staff growth and development.

On the afternoon of 26 May 2017, the Company organized trainings for technical knowledge of wastewater treatment techniques, and invited the deputy manager of the Company's information technology department to give lectures. For the personnel involved in the training, there were more than 80 people including the person in charge of the subsidiary, technicians, group leaders, and front line operators.

This training mainly employed a training mode in combination of lecturing and case analysis to explain on the maintenance knowledge of wastewater treatment equipment, the breakdown and solutions of appliances and instruments for on-line monitoring, common problems in processing adjustment, and adjustment methods thereof etc.. It also enabled staff participants to summarize and conclude the learning content in a timely manner, and completed the conversion of knowledge from “knew-applied-done-learnt”, therefore receiving positive feedbacks from employees concertedly.



**Case: New Staff Trainings**



In order to strengthen the understanding of new employees on the Company's development history, corporate culture, organizational structure, water construction and development, production technology and company management etc., help them quickly adapt to the corporate environment and job positions, and improve work efficiency, the Company organized an induction training for new employees from 28 September to 29 September 2017. Details of training is as follows: corporate profile, corporate management, external service specification and skills, techniques and processing flow and knowledge of safety and occupational health. The training was mainly conducted in the form of classroom lectures, personnel interactions, case analysis, study tours and others such that new employees could fully understand the Company and became familiar with the working environment. After completion of the training, each learner would make a summary of learning combined with his/her own work plan based on the training conditions. After a comprehensive assessment on the effectiveness of the training, the rate of learners' satisfaction to the induction training reached 100%.



### B4 LABOUR STANDARDS

The Company stringently abides by the PRC Labour Law (《中華人民共和國勞動法》), Regulations on Prohibited Use of Child Labour (《禁止使用童工規定》) as well as relevant laws and regulations, and formulates the “Administrative Measures for Employee Recruitment” (《員工招聘管理辦法》) to forbid acts for employment of child labour and forced labour in all forms. Pursuant to relevant provisions in the Trade Union Law of the PRC (《中華人民共和國工會法》) and the Constitution of the Chinese Trade Union (《中國工會章程》), the Company persists in safeguarding the legitimate rights of employees, supports democratic election of its chairman and independence of the trade union, and regularly convenes the congress of employee representatives. In the mean time, the Company also vigorously promotes the openness of factory affairs, establishes an information management mechanism based on the logic of “release of information from superior and reporting of the situation to the top”, and broadened the channels for employees to involve in the Company’s management and give feedbacks as to jointly witness the corporate growth and expansion.

In addition, the Company spares no effort in conducting employee care activities and offers them with a variety of care measures, building a bridge between the Company and employees with love and strengthening the sense of belonging of employees.

- Create files for employees in difficulty, and provide financial assistance to such employees and their families;
- Keep track of the health conditions of employees, and apply for major medical grants for employees with sickness;
- Unremittingly carries on “sharing homelike warmth” activities for front-line production staff;
- Provide female employees with special health check-up, and offer employees with additional medical insurances and a number of allowances at the same time;
- Provide sports and recreational facilities such as reading room, gymnasium, exhibition room, and citizen school to employees, and organize the “Qu Yuan Soul” theme ancient poetry recitation contest, photography, calligraphy and painting competitions, etc..

**Case: Deliver Cooling Aids in Summer as Employee Benefits**



In August 2017, in spite of continued high temperature in the Luzhou area, the Company's employees still struggled in the front-line production to ensure normal operation of the tap water supply and wastewater treatment business. To encourage and express solicitude to front-line employees and help front-line employees prevent suffering from heat-stroke and cool down, in accordance with the "Management Measures for Employee Welfare", the Company purchased heatstroke prevention and cooling supplies for its employees, and carried out the "Send Cool" activity in subsidiaries for employees. During the activity, the senior management and leaders of the Company cordially extended condolence to front-line employees by sending those heat-stroke prevention and cooling supplies in person to the hands of such employees struggling in the front-line production, and reminding employees the combination of work and rest to avoid heat-stroke. The "Send Cool" activity made employees feel refreshed during the hot summer and touched by the concern of the Company.

### Case: I was Face To Face with Company's leaders



On the 4 May Youth Day in 2017, the Company held a symposium with the theme of “memorizing the spirit of the May Fourth and dedicated to corporate development” to provide young employees with valuable opportunities for face-to-face communication with senior management and leaders of the Company. Full of energy and enthusiasm, the participating young employees all talked about their understanding of and change in world views, life philosophy and value system, as well as their personal experience and feelings toward their work and life, offered advices and contributed strategies for the future development of the Company. After listening carefully to the speeches of young employees, in combination with own experience and past encounter, the participating leaders shared their ideas with young employees on improvement of ideological and moral qualities, business skills and other aspects. Zhang Qi, being the Chairman of the Board, and Liao Xingyue, being the General Manager of the Company, placed high expectations on young fellows, saying that having successfully listed in Hong Kong, the Company undergoes a period of rapid development, in face of which young employees should be passionate about life and work and should learn from the older generation the spirit of hard struggle and selfless dedication. Young employees should get a foothold in their positions, enhance their studies, eager to shoulder responsibility, explore and innovate, accomplish and achieve for the enterprise, and seek mutual development with the Company.

Organizing this symposium enabled young employees to better understand the direction of moving forward, and the leaders to know about the state of mind of young employees, favourable to the cultivation and development of talents in the enterprise.

## B5 SUPPLY CHAIN MANAGEMENT

To establish an efficient supply chain and intensify management of the process for materials procurement, in accordance with the requirements of relevant national laws and regulations, the Company formulates internal system for supplier management, standardizes supply screening process, and strengthens dynamic management on qualified suppliers to enhance the fulfilment of responsibilities by suppliers, so as to ensure the stability and high efficiency of the Company's supply chain.



## Chapter X Environmental, Social and Governance Report (Continued)

Supplier management system	The Company formulates the “Administrative Measures for Database of Professional Accreditation Personnel in Materials Procurement” (《物資採購評審專業人員庫管理辦法》), the “Regulation for Materials Procurement Management” (《物資採購管理規定》) and the “Administrative Measures for Materials Procurement Tendering” (《物資採購招標管理辦法》), the “Administrative Measures for Integrity and Credibility of Suppliers” (《供應商廉潔誠信管理辦法》) and the “Administrative Measures for Suppliers” (《供應商管理辦法》) to standardize materials procurement and supplier management.
Screening and management of potential suppliers	The Company establishes systematic processes regarding screening of suppliers by adopting rating system to assess suppliers and classify them into different levels, after fully considering compliance procedures, financial strength, delivery quality, delivery period, product prices, follow-up services, and whether the suppliers have obtained ISO9001, ISO14001 management system certificates. The approved suppliers are listed in the “List of Suppliers for Trial” for a trial term of one year, and will be listed in the “Qualified Supplier List” after becoming qualified. Supplier profiles will be created and tracking for materials quality and services will be made. On-site field trips and evaluation may be arranged for personnel prior to the trial whenever necessary.
Routine management of qualified suppliers	The Company conducts dynamic management on qualified suppliers and degrades or disqualifies those who violate the supplier administrative system. In addition, the Company directs its attention to the performance of environmental and social responsibility by its suppliers. Should cases concerning environmental pollution and violations of labour standards by suppliers are brought to the attention of the Company, we shall degrade or disqualify suppliers depending on the seriousness of the breach. During the Reporting Period, the Company has successfully completed the annual evaluation of suppliers that 142 suppliers were examined, with an evaluation rate of 100%. And the Company paid six return visits on product quality of suppliers of its subsidiaries and conducted four reviews and supervisions on its subsidiaries.

During the Reporting Period, the table for regional distribution of the Company's suppliers is as follows:

**Table for regional distribution of suppliers in 2017**

Region (province)	Sichuan	Chongqing	Jiangsu	Shanghai	Zhejiang	Guangdong	Shandong	Others	Total
Number (stores)	86	23	11	8	3	2	2	7	142

In addition, the Company also proactively cooperated with partners to leverage on their respective advantages to establish cooperative relations for achieving strong-strong cooperation, as to jointly develop a promising market.

### B6 PRODUCT RESPONSIBILITY

In strict compliance with the Product Quality Law of the PRC (《中華人民共和國產品品質法》), the Urban Water Supply Regulations of the PRC (《中華人民共和國城市供水條例》), the Water Quality Management Provisions for Urban Water Supply (《城市供水水質管理規定》), the PRC Law on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and other relevant laws and regulations, in adhere to the brand concepts of safe water supply, excellent service, scientific management and innovative development, the Company strives to provide our customers with clean water supply and high-quality services, through formulation and implementation of a strict management system for products and services to further improve the quality of the products and services of the Company, thereby reassuring and satisfying customers.

During the Reporting Period, no occurrence of any litigations arising from violation of relevant laws and regulations relating to products and services were found in the Company.

Tap water sales of approximately 95.0 million tonnes in 2017

Tap water supply capacity of approximately 155.3 million tonnes in 2017

New water daily supply capacity of 145,000 tons in 2017

Wastewater treatment amount of approximately 60.3 million tonnes in 2017

Wastewater treatment capacity of approximately 95.3 million tonnes in 2017

### B6.1 Safe and Stable Water Supply

Water safety is associated with thousands of families and ten thousands of households as well as the overall economic development. In order to ensure the provision of high-quality, safe and reliable supply of tap water to its customers, the Company stringently controls water supply, water production and water delivery, and enlarges water supply capacity according to demand, as to ensure the growing demand for water use in Luzhou City. The Company also obtained ISO9001 quality control system certification. In 2017, the overall qualified rate of the Company's water quality reached 99.98%, revealing that the Company maintained stable water supply and did not experience water supply shortage. In addition, the Company being a member of China Urban Water Association (中國供排水協會) and Sichuan Urban Water Supply and Drainage Association (四川省城鎮供水排水協會) also reinforces drinking water safety by means of industrial cooperation, liaison and exchange.

**Water supply** 8 tap water plants currently operated by the Company are all from class I drinking water protection area and class II drinking water protection area of the Yangtze River to ensure high-quality, safe, and steady water supply from the origin of water supply. In addition, the Company actively carries out investigation on water source, keeps track of the pattern of changes in water source and water quality as well as the dynamics of upstream sewage discharge, and gives response and copes with the above in a timely manner. If abnormal chemical indicators are found, the Company will immediately handle in accordance with the "Preparation Plan for Water Production Emergency Response to Pollution in Water Supply Facilities" (《供水設施污染應急處理預案》) and notify the Safe Production Department to take water for checking suspicious indicators and continuously observe until the water quality returns to normal level.

**Water production** The Company formulates the "Administrative Measures for Water Quality" (《水質管理辦法》), the "Administrative Measures for Quality Control Station for Water Quality Monitoring" (《水質監測質量控制點管理辦法》), the "Implementation Measures for Water Quality Inspection" (《水質檢驗實施辦法》) and other internal rules, constructs a water quality management system and water quality inspection system to strictly control processing procedure for water production, regularly inspects the water quality of raw water, pre-treatment water, processed water and terminal tap water to ensure the qualified rate of processed water quality reaching 99%, the qualified rate of pipeline network quality reaching 98%, and the overall qualified rate of water quality reaching 98.5%. At present, the Company has obtained certifications for the three systems of quality, environment and career health and safety issued by Quality Assurance Centre of China Association for Quality (中質協質量保證中心) and strictly performed the same throughout the whole tap water supply process, which has further strengthened the management of water supply quality.



## Chapter X Environmental, Social and Governance Report (Continued)

- Water supply** The Company monitors relevant data to the dispatch centre on a real-time basis and such data includes the pool capacity of treatment plants, pressure within the pipeline network and operation status of equipment. Besides, the Company implements integrated dispatch of water supply in combination with the Plan for Water Supply and Dispatch in 2017 (《2017供水調節方案》) based on various production data. The Company strengthens the management within the pipeline network in urban areas, which includes patrol, maintenance and repair, and conducts netting inspection for different routes based on the monthly leakage detection plan. The Company formulated the “Emergency Response Plan on Urban Water Supply Incidents” (《城市供水突發事件應急預案》), which included 13 targeted emergency response plans, for example, the “Targeted Emergency Response Plan for Water Supply Production and Operations Incidents” (《供水生產運行突發事故專項應急預案》), to settle the incidents in a prompt manner to maintain stable water supply. In 2017, the Company conducted a total of over 1,000 times of leakage detection patrol and over 300 leakage points were found. The detection has efficiently lowered the leakage rate. In addition, the Company constantly increases its efforts to promote the integration of secondary water supply and urban and rural water supply, and strengthen water supply capacity and efficiency.
- Production capacity** The Company builds, expands and upgrades facilities such as tap water plants and pipelines to increase production capacity according to the growing demand for domestic and industrial water in Luzhou City.

### **Case: Technological Upgrade to Raise Water Quality and Quantity**

In order to provide better and healthier tap water in terms of quality, from the perspective of residents' health, the Company used new processing technique and technology to improve the water production method in the Beijiao Supply Plant, and changed the disinfection method from liquid chlorine disinfection to chlorine dioxide disinfection. Being mature in nature with more than 100 years in history, liquid chlorine disinfection has been a disinfectant characterized by low cost and simple equipment, which is still used by most of the water plants. However, in recent years, the difficulty of degrading the by-products generated by chlorine disinfection aroused health concerns from people. Chlorine dioxide is one of the few new types of disinfectants which can be used in urban tap water treatment. By-products arise from disinfection will not generate chloroform or carbon tetrachloride, even safer and healthier.

**Case: Bulletin for Water Quality Pacifies Residents on Water Use**

In order to improve service quality and pacify the residents of Luzhou City on water use, in 2017 the Company set up the Bulletin for Water Quality interface under the column of Announcements and Bulletins in the official website of the Company ([www.lzss.com](http://www.lzss.com)). After entering the Bulletin for Water Quality interface, residents can select the year and month to inquire about water quality in checkpoints of the processed water from the Nanjiao Supply Plant, the Beijiao Supply Plant, checkpoints of terminal tap water of the Dashanping pipeline network and the Hongxing Xiaoqu pipeline network, which includes residual chlorine, turbidity, total amount of coliform bacteria and other major water quality indicators. In addition, the monitoring data is released by the Luzhou Monitoring Station under the Water Supply, Drainage and Quality Monitoring Website of Sichuan Province every month according to the Hygienic Standard for Drinking Water (《生活飲用水衛生標準》) (GB5749-2006) to ensure the timeliness and authenticity of the data.

The Bulletin for Water Quality enables the residents to timely keep informed of tap water quality and feel more secured when using water.

### *B6.2 Sewage Treatment Attainment*

Clean water after being used is polluted, which becomes waste water without the original function of use and therefore direct discharge into the environment will cause environmental damage and endanger human health. One of the Company's main operations is wastewater treatment that is to remove the pollutants in the sewage through wastewater treatment process, as to restore wastewater to the original state as far as possible, such that it would not cause damage to the environment after being discharged into the environment.

The Company attaches importance to the environmental efforts brought by wastewater treatment, and incessantly improves the quality management system and upgrades the wastewater treatment facilities, thereby expanding wastewater treatment capacity, enhancing indicators for discharge water quality, in an endeavor to ensure that wastewater after being treatment fulfills the first class A or first class B discharge standards of Urban Wastewater Treatment Plant Discharge Standards (城鎮污水處理廠污染物排放標準) (GB18918-2002) and gradually satisfies the Water Pollutants Discharge Standards of Minjiang River and Tuojiang River Basin (岷江、沱江流域水污染物排放標準), in a way that the wastewater being up to standard is not directly discharged into the Yangtze River, reducing its environmental impact on the Yangtze River.

- The Company establishes a complete quality control system, under which 9 subsidiaries have passed certifications for the three systems of quality, environment and career health and safety. The Company strictly implements the quality control system, and each of the wastewater treatment plants formulates its own processing and technical specifications suitable for the plant so that problems can be identified in a timely manner and follow-up actions and rectifications can be taken to eliminate hidden threats;
- The Company has a refined centralised control system on wastewater treatment with laboratories for daily inspection on water quality and online monitoring equipment for 24-hour surveillance over the water quality to carry out all-water dynamic monitoring of water volume and quality in various processes of wastewater treatment, timely adjust production and operation parameters as to ensure stable quality of water outflow and being up to standard;
- The Company steps up the upgrade and renovation of old wastewater treatment plants and backward equipment, and adopts new techniques and new technologies to improve the results and capacity of wastewater treatment.



The total volume of processed water of the Company in 2017 was 60.3 million tons. For water inflow from the Company's wastewater treatment plant out of the urban drainage pipe network, the average concentration of inflow COD was 175.18 mg/L, average concentration of outflow COD was 16.36 mg/L, reduction of COD was 9,522.5 tons; average concentration of inflow ammoniacal nitrogen was 25.68 mg/L, average concentration of outflow ammoniacal nitrogen was 0.88 mg/L, reduction of ammoniacal nitrogen was 1,284.3 tons.

In addition, the Company is a governing unit of the Journal of China Urban Water Association, a governing unit of Sichuan Urban Water Supply and Drainage Association (四川省城鎮供水排水協會), and a standing governing unit of the China Association of Environmental Protection Industry of Luzhou City (瀘州市環境保護產業協會) which helps raise the Company's overall operating standards through industry exchange and cooperation.

### **Case: Promptly Adjust Techniques To Ensure Wastewater Be Up To Standard**



The continued low level of concentration of inflow COD index for wastewater from the urban pipe network may affect the total nitrogen indicators of water outflow after treated by some of the Company's wastewater treatment plants. In this regard, the Company gathered professional and technical cadres to make processing adjustments to such problem and set up a system for glucose nutrient dosing, and the Company's information technology department for wastewater treatment developed maintenance and operation solutions to ensure that the total nitrogen indicators of water outflow after commissioning can reach the discharge standards. The water outflow quality before adjustment was 14–14.5mg/L, and the total nitrogen out of water outflow after adjustment was 12–13mg/L, in order to ensure stability of the total nitrogen indicator and up to the discharge standard.

### B6.3 Excellent services

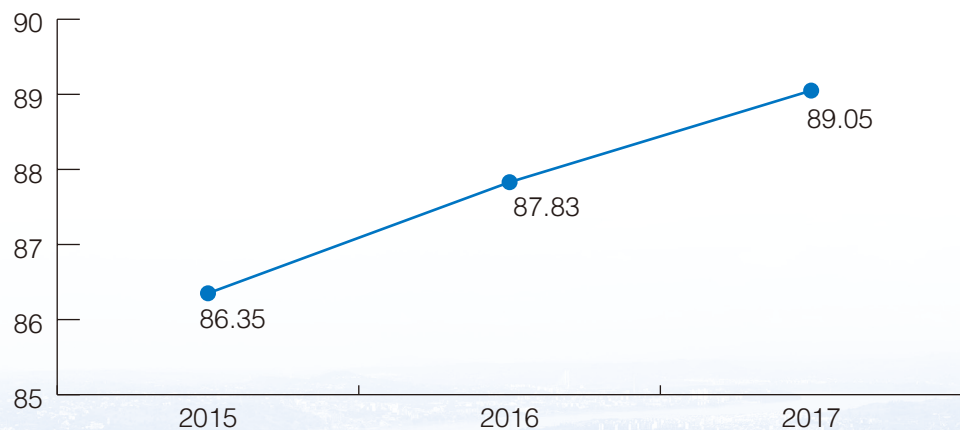
The Company is committed to providing customers with simple, convenient and prompt services, starting with each of its communications with customers, enhancing service quality, satisfying diversified demands from customers and optimizing customer service experience.

- |                                      |  |
|--------------------------------------|--|
| Management of service positions      | <ul style="list-style-type: none"><li>• The Company formulates the Service Specification for External Service Positions (《對外服務崗位服務規範》), which stipulates the appearance, outfit, behavior, languages and communication methods of service staff, and specifies the service flow of eight positions such as hotline positions, fees collection positions, and business registration positions;</li><li>• The Company formulates the Management Rule on Confidentiality (《保密管理規定》), defined the protective measures on customer privacy in service rule, and adopts the form of authorized management to protect customer privacy;</li><li>• The Company regularly organizes special trainings, business service seminars, competitions and other activities, discusses solutions on existing problems, promotes and shares experience of successful cases, and improves service capabilities.</li></ul> |
| Performance assessment and incentive | <ul style="list-style-type: none"><li>• The Company formulates a measure of selection for the star service staff position, and motivates employees to proactively offer quality services through performance evaluation methods.</li></ul>   |
| Service communication method         | <ul style="list-style-type: none"><li>• The Company commences the 12345 Mayor's Hotline and 24-hour Water Supply Service Hotline 0830-3192777 to timely render services to customers. During the Reporting Period, the Company handled mayor hotline for 46 times in total and none of which were complaints, with a reply rate of 100%; handled water supply service hotline for 23,027 times, of which 7 times were complaints, with a reply rate of 100%; online opinions for 49 times, with a reply rate of 100%.</li></ul>  |

## Chapter X Environmental, Social and Governance Report (Continued)

- Complaint management
- Based on the principle of “seeking truth from facts, conducting investigation and research, giving feedbacks by deadlines, and responding within a definite time”, the Company formulates the Management Measures for Complaints, timely and effectively handles incidents involving complaints, and resolves customer complaints through multiple methods such as telephone calls, onsite promotion, posting announcements and strengthening management.
- Convenient services
- The Company formulates working rules for “one-stop” services for the water supply service lobby, which allows the consecutive handling of various affairs, such as application for water supply, water quality inspection, water supply design, pipeline installation, pipeline repair and billing enquiry from customers;
  - In January 2017, the Company opened WeChat and Alipay payment channels to facilitate residents’ payment of water bills.
- Satisfaction survey
- Each of the affiliated companies conduct annual customer satisfaction surveys on tap water supply for those corporations, enterprises or institutions, the community, and individuals within their service areas, and analyse the survey results to provide a basis of reference for improvement of service quality. Customer satisfaction for the whole year of 2017 was 89.05%.

**Chart of Customer Satisfaction Trend for 2015–2017(%)**





**Case: Bulletin for Water Prices**

In order to improve service standard and facilitate the residents to understand breakdown of water prices, in 2017 the Company set up the Bulletin for Water Prices interface under the column of Announcements and Bulletins in the official website of the Company ([www.lzss.com](http://www.lzss.com)) which disclosed a price list of tap water supply in urban areas of Luzhou City (Jiangyang District, Longmatan District and Naxi District). This table clearly states the breakdown of water prices, namely “residential domestic use of water”, “non-resident domestic use of water”, “temporary use of water”, and “special use of water”, and discloses the basis of billing, such as the standard on adjustment to tap water prices, which is based on Document of Lushi Fagai Jiage [2016] No. 215.

The Bulletin for Water Prices enhances the transparency of water prices and billing, while increasing understanding of and cooperation from residents.

**Case: “Nourish the Wine City, and Provide Quality Services To Ten Thousands of Households”**



In 2017, the Company’s subsidiary in Lu County launched the “Nourish the Wine City” event in Tianli Jade City, with an aim to solving the problem of fee payment by users from longer distance in the supply area in the west of Lu County, and publicized the Company’s work for guarantee of summer water supply to users.

At the spot of the activity, employees of the subsidiary in Lu County distributed WeChat and Alipay payment information to users to promote methods of mobile payment, while demonstrating the hands-on operation procedures and points for attention, enabling users to easily pay water fees at home, thereby solving, in one move, the inconvenience problem of settling payment from long distance in the west of Lu County. In the meantime, with response to the problem of low water pressure during the peak hours of water supply reported by users in the west of the supply area, the Company also took this opportunity to liaise with and explain to the users, publicized the measures for guarantee of water supply adopted by the Company, and promoted “Store water in advance, and use water during non-peak hours” and other temporary counter-measures to the users.

The launch of such activity enabled the majority of users in the supply area in the western city to learn about a more convenient and quicker kind of new payment method for settling water charges, in a way that the smart waterworks concept of “paying for charges easily without leaving home” is truly integrated into life. Meanwhile, the Company’s introduction on those measures for guarantee of water supply during the peak period also enabled users to show understanding and support to the Company’s efforts and dedication.

Since the launch of activities for the series of “Nourish the Wine City, and Provide Quality Services To Ten Thousands of Households” in 2014, the Company, for several times, organized its staff to penetrate into the community and provide users with a series of convenient and beneficial services such as payment and deposit of water fees, repairs and maintenance, inspection of water quality, and publicity for common knowledge of water supply, thereby receiving support and praise from the general public.

### B7 ANTI-CORRUPTION

The Company adheres to the idea of “Clean Conduct and Integrity”, strictly complies with relevant laws and regulations such as the Criminal Law of the PRC (《中華人民共和國刑法》), the “Anti-Unfair Competition Law of the PRC” (《中華人民共和國反不正當競爭法》), the “Interim Provisions on the Prohibition of Commercial Bribery” (《關於禁止商業賄賂行為的暫行規定》) promulgated by State Administration for Industry and Commerce, through establishing the Company’s internal anti-corruption management system, setting up a sound anti-corruption organizational mechanism and other methods, so as to prevent corruption risks such as fraud, extortion and money laundering, and grant great and solid support to the health development of the Company.

During the Reporting Period, the Company had no litigation nor received any corresponding penalties due to corruption or bribery.

Anti-corruption management system	The Company formulates a number of regulations such as the “Implementation Measures for Preventing Illegal Works” (《預防職務犯罪工作實施辦法》), the “Implementation Measures for Integrity Risk Prevention System “Three Early Three Cards” of Water Group” (《水務集團廉潔風險防控“三早三卡”機制實施辦法》), the Management Measures for Pricing and Approval of Project Cost (《工程造價審核管理辦法》), the Management Measures for Payment of “One Family One Metre Installation Project” (《戶表安裝工程收費管理辦法》), the Provisional Measures for Payment of “One Family One Metre Installation Project for Tap Water” (《自來水戶表安裝工程費收費暫行辦法》), in order to reinforce the supervision and restriction for each section, strengthen the operation of the integrity system and enlarge the scope of detection for corruption from the source.
Anti-corruption administration and organizational mechanism	The Company has been continuously improving and developing the system of anti-corruption and disciplinary supervision by setting up disciplinary inspection committee, disciplinary supervision office under the party-masses department for supervising the implementation of anti-corruption for each department of the Company.
Anti-corruption management and supervision	By setting up a whistle-blowing mailbox and reporting hotlines, the Company is able to collect reports and complaints from the public, and hence imposing greater supervision from the public.
Anti-corruption propaganda and education	The Company actively carries out anti-corruption propaganda and education, arranges watching films for integrity education such as Fighting Corruption Always Underway (《永遠在路上》), To Forge Iron, A Hard Hammer Is A Must (《打鐵還需自身硬》). In 2017, the Company organized 2 talks on integrity of the Group, with a total of more than 120 participants, and 155 personnel holding key positions signed the integrity commitment.



**Case: Develop education on party culture and party discipline, and firmly build a red line of party discipline and state laws**



On 27 February 2017, the Xinglu Water Party Committee arranged a learning session on the education of integrity as the party conduct, during which a total of 17 people including members of the Party Committee, team members, members of the discipline committee and branch secretaries watched an educational film for party discipline called “Mirror”.

Watching the educational film enabled the Company’s key leading cadres to clearly understand the existence of the red line for party discipline and the possible consequences of touching the red line. They should keep in mind honest governance for the people, eliminate the acts of bureaucracy and the practice of extravagance. The leaders of the Company were more convinced of the importance of building a party culture and honest government.

## B8 COMMUNITY INVESTMENT

The Company regards the discharge of its corporate social responsibility as the solemn corporate mission that are in the interest of the society. In improving its production targets and financial performance, it also actively carries out targeted poverty alleviation as well as social and charitable activities in combination with its own advantages, thereby giving impetus to the economic and social development of the place where the Company’s business operates, building a sustainable future jointly with the community, and constructing a harmonious socialist society by contributing the power of Xinglu Water.

### **Case: Solve the Problem of Drinking Water And Ensure Poverty Relief and Wealth Accumulation**



Due to the karst landform of Yuxiangping Village, Lianghe Town, Xuyong County in Luzhou City, water shortage has always been the most realistic problem faced by the villagers, and also a main point that the Company, in combination with its own characteristics, granted support to Yuxiangping Village on precise poverty alleviation,.

On 16 November 2017, the Company penetrated into Yuxiangping Village to carry out precise poverty alleviation activities by donating to the villagers 14 sets of pipeline installation equipment and more than 1,200 pieces of fittings for various models of drinking water usage. In addition, the Company selected and deployed 2 experienced technical personnel with solid technical background to provide briefing to the villagers on knowledge of pipe installation, answer technical problems encountered by the villagers in the process of pipe repair, and demonstrate the operation in front of the villagers, hence enriching the villagers' knowledge of pipe installation and maintenance as well as their technical level, attracting more than 20 villagers to participate in the training, and providing basic guarantee to pipeline maintenance and management for Yuxiangping Village. Meanwhile, the villagers who have learned a new technique can also have another way out for a living.

Through unremitting efforts of the Company in recent years, the Company built a new water supply station, a drip irrigation station, installed water supply pipeline network and other water supply facilities in Yuxiangping Village. Tap water supply basically covered the whole village, and eased the huge problem of villagers having difficulty in drinking and using water, therefore making important contributions for the precise poverty alleviation work in Yuxiangping Village. According to the "Reply of Approval for Withdrawal of 149 Villages from the Array List of Deprived Villages Including Shaba Village" issued by the People's Government of Luzhou City on 24 November 2017, Yuxiangping Village, Lianghe Town, Xuyong County successfully took off the hat of poverty.



**Case: Conduct Volunteer Promotion Campaign**



On 16 July 2017, banners and flags fluttered with the wind at the promotional booth for creative industry in the Lanse Kongjian Housing Estate at Youyi Road Community in Naxi (納溪友誼路社區蘭色空間小區創文宣傳點). With high enthusiasm, 20 volunteers from Xinglu Water were carrying out a promotion campaign under the theme of constructing a civilized city. Adhere to the spirit of volunteering, with a mission of serving the vast majority of people, volunteers initiated a variety of volunteer service activities. In addition to setting up a booth in the housing estate for centralized propaganda, volunteers wearing little red hats also took promotional materials to start door-to-door promotion and popularized the knowledge of constructing a civilized city. Simultaneously, focused on the business characteristics of Xinglu Water, in promoting the construction of a civilized city, volunteers also gave briefings to residents regarding common knowledge of domestic water use, breakdown of tap water prices, convenient services for fee payment etc.. During the volunteer campaign, residents in the community proactively involved in activities and developed good interaction with volunteers, in a way that subject matters such as constructing a civilized city received good publicity.

In 2017, Xinglu Water was named as the “Advanced Unit in the Creative Industry”.



# 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 131 to 224, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 assessment 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 assessment.

As disclosed in note 16 to the consolidated financial statements, for the purpose of impairment assessment, the carrying amount of the IA was RMB323.0 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 4 and 16 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 2017.

Our procedures in respect of the impairment assessment of the IA included:

- Understanding the directors' impairment assessment 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 assessment in the consolidated financial statements are sufficient and appropriate.

# INDEPENDENT AUDITOR'S REPORT (Continued)

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of receivables under service concession arrangements (the “Receivables”)</b></p> <p>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.</p> <p>At 31 December 2017, the carrying amount of the Receivables is RMB750.9 million as disclosed in note 16 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 4 and 16 to the consolidated financial statements, and concluded that no impairment in the Receivables is necessary for the year ended 31 December 2017.</p>	<p>Our procedures in respect of the assessment of the impairment of the Receivables included:</p> <ul style="list-style-type: none"><li>• 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</li><li>• 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.</li></ul>

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but 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 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.



## 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.

## INDEPENDENT AUDITOR'S REPORT (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.
- 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.

## INDEPENDENT AUDITOR'S REPORT (Continued)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

28 March 2018



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Revenue	5, 6	<b>1,081,744</b>	836,191
Cost of sales and services		<b>(828,250)</b>	(621,582)
Gross profit		<b>253,494</b>	214,609
Other income, expenses, gains and losses, net	7	<b>14,744</b>	33,397
Distribution and selling expenses		<b>(12,533)</b>	(9,973)
Administrative expenses		<b>(57,901)</b>	(46,323)
Listing expenses		<b>(7,722)</b>	(1,798)
Finance costs	8	<b>(26,913)</b>	(24,100)
Profit before tax	10	<b>163,169</b>	165,812
Income tax expense	9	<b>(20,480)</b>	(25,016)
Profit for the year		<b>142,689</b>	140,796
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		<b>131,298</b>	126,647
– Non-controlling interests		<b>11,391</b>	14,149
		<b>142,689</b>	140,796
EARNINGS PER SHARE (RMB)	13		
– Basic		<b>0.16</b>	0.20
– Diluted		<b>0.16</b>	N/A

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	At 31 December	
		2017 RMB'000	2016 RMB'000
<b>Non-current Assets</b>			
Property, plant and equipment	14	37,320	37,002
Prepaid lease payments	17	77,778	78,141
Investment properties	15	13,071	13,359
Intangible assets	16	1,461,240	1,022,144
Prepayments for prepaid lease payments	23	4,000	4,000
Receivables under service concession arrangements	16	736,408	761,901
Available-for-sale investments	18	53,630	53,630
Deferred tax assets	19	9,007	5,104
		<b>2,392,454</b>	1,975,281
<b>Current Assets</b>			
Inventories	20	28,016	17,395
Receivables under service concession arrangements	16	14,493	11,294
Trade receivables	22	100,429	83,717
Prepaid lease payments	17	1,764	1,637
Amounts due from customers for contract work	21	10,464	8,470
Prepayments and other receivables	23	17,121	29,774
Restricted bank balance	24	–	5,000
Bank balances and cash	24	700,075	526,569
		<b>872,362</b>	683,856
<b>Current Liabilities</b>			
Trade payables	26	21,752	10,442
Advances from customers and other payables	27	431,450	319,915
Tax liabilities		12,723	21,205
Borrowings	25	289,574	319,674
Provisions	29	4,902	14,214
		<b>760,401</b>	685,450
<b>Net Current Assets (Liabilities)</b>		<b>111,961</b>	(1,594)
<b>Total Assets less Current Liabilities</b>		<b>2,504,415</b>	1,973,687

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2017

	Notes	At 31 December	
		2017 RMB'000	2016 RMB'000
<b>Capital and Reserves</b>			
Share capital	30	<b>859,710</b>	664,310
Share premium and reserves		<b>926,530</b>	625,474
<hr/>			
Equity attributable to owners of the Company		<b>1,786,240</b>	1,289,784
Non-controlling interests		<b>91,676</b>	81,489
<hr/>			
<b>Total Equity</b>		<b>1,877,916</b>	1,371,273
<hr/>			
<b>Non-current Liabilities</b>			
Deferred tax liabilities	19	<b>12,615</b>	11,622
Borrowings	25	<b>313,185</b>	365,609
Deferred revenue	28	<b>145,036</b>	128,639
Provisions	29	<b>155,663</b>	96,544
<hr/>			
		<b>626,499</b>	602,414
<hr/>			
		<b>2,504,415</b>	1,973,687

The consolidated financial statements on pages 131 to 224 were approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

**Mr. Zhang Qi**  
DIRECTOR

**Mr. Liao Xing Yue**  
DIRECTOR



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the Company						
	Share capital RMB'000	Capital reserves RMB'000	Statutory surplus reserves RMB'000 (Note)	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As at 1 January 2016	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 30)	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 31)	-	(1,824)	-	-	(1,824)	1,824	-
As at 31 December 2016	664,310	242,853	6,018	376,603	1,289,784	81,489	1,371,273
Profit and total comprehensive income for the year	-	-	-	131,298	131,298	11,391	142,689
Appropriation for the year	-	-	16,676	(16,676)	-	-	-
Issue of new ordinary shares (Note 30)	195,400	203,595	-	-	398,995	-	398,995
Listing expenses related to the issue of ordinary shares (Note 30)	-	(33,837)	-	-	(33,837)	-	(33,837)
Capital contribution by a non-controlling shareholder of a subsidiary	-	-	-	-	-	408	408
Dividend declared by subsidiaries	-	-	-	-	-	(1,612)	(1,612)
As at 31 December 2017	859,710	412,611	22,694	491,225	1,786,240	91,676	1,877,916

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) to the statutory surplus reserves (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 2017

	Year ended 31 December	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>163,169</b>	165,812
Adjustments for:		
Bank interest income	<b>(2,342)</b>	(1,878)
Foreign exchange losses, net	<b>13,171</b>	–
Government grants recognised	<b>(7,233)</b>	(6,488)
Profit from construction and upgrade services of infrastructure	<b>(1,006)</b>	(664)
Depreciation and amortisation	<b>50,391</b>	35,529
Gains on disposal of property, plant and equipment, investment properties and prepaid lease payments, net	<b>(17)</b>	(6,230)
Impairment losses (reversal of impairment losses) on trade and other receivables	<b>327</b>	(58)
Impairment losses on inventories	<b>456</b>	–
Finance costs	<b>26,913</b>	24,100
Operating cash flows before movements in working capital	<b>243,829</b>	210,123
(Increase) decrease in inventories	<b>(11,077)</b>	70
Increase in trade and other receivables and prepayments	<b>(23,564)</b>	(8,937)
Increase in amounts due from customers for contract work	<b>(1,994)</b>	(774)
Decrease in receivables under service concession arrangements	<b>11,294</b>	7,235
Increase in trade and other payables and advances from customers	<b>74,565</b>	28,256
Increase in provisions	<b>44,380</b>	33,571
Cash generated from operations	<b>337,433</b>	269,544
Income tax paid	<b>(31,872)</b>	(40,918)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>305,561</b>	228,626

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>INVESTING ACTIVITIES</b>		
Bank interest received	2,342	1,878
Purchases of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of infrastructure	(416,903)	(294,889)
Government grants received	23,630	7,795
Purchase of other financial assets	–	(35,000)
Redemption of other financial assets	–	35,000
Proceeds on disposal of property, plant and equipment, investment properties and prepaid lease payments	34	7,896
Withdrawal (placement) of restricted bank balance	5,000	(5,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(385,897)</b>	<b>(282,320)</b>
<b>FINANCING ACTIVITIES</b>		
Capital contribution by shareholders	–	133,580
Capital contribution by a non-controlling shareholder of a subsidiary	408	1,640
Proceeds from new borrowings	245,000	466,000
Repayments of borrowings	(327,254)	(271,637)
Issue of new ordinary shares	398,995	–
Payment of interest expenses	(25,669)	(29,521)
Payment of listing expenses	(22,855)	(8,782)
Dividends paid	–	(315)
Dividends paid to non-controlling shareholders of subsidiaries	(1,612)	(11)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>267,013</b>	<b>290,954</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>186,677</b>	<b>237,260</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>526,569</b>	<b>289,309</b>
Effect of foreign exchange rate changes	(13,171)	–
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER,</b>		
Represented by:		
Bank balances and cash	700,075	526,569



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

## 1. GENERAL

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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### Amendments to IFRSs that are mandatorily effect for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12	<i>As part of the Annual Improvements to IFRSs 2014–2016 Cycle</i>

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### Amendments to IFRSs that are mandatorily effect for the current year (Continued)

#### Amendments to IAS 7 *Disclosure Initiative (Continued)*

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group’s consolidated financial statements.

### New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	<i>Financial Instruments</i> <sup>1</sup>
IFRS 15	<i>Revenue from Contracts with Customers and the Related Amendments</i> <sup>1</sup>
IFRS 16	<i>Leases</i> <sup>2</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>4</sup>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> <sup>1</sup>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> <sup>2</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> <sup>2</sup>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>2</sup>
Amendments to IAS 28	<i>As part of the Annual Improvements to IFRSs 2014–2016 Cycle</i> <sup>1</sup>
Amendments to IAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2015–2017 Cycle</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### New and revised IFRSs in issue but not yet effective (Continued)

Except for the new and revised IFRSs below, the Directors anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

#### IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9 which are relevant to the Group are:

- 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 financial assets are measured at their fair value at 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.
- 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 IAS39 *Financial Instruments: Recognition and Measurement* (“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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### New and revised IFRSs in issue but not yet effective (Continued)

#### IFRS 9 *Financial Instruments (Continued)*

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

#### *Classification and measurement*

- Debt instruments classified as receivables carried at amortised cost as disclosed in notes 16, 22 and 23: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.
- Equity securities classified as available-for-sale investment carried at cost less impairment as disclosed in note 18: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains and losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Upon initial application of IFRS 9, the fair value gain relating to these securities would be adjusted to investment revaluation reserve as at 1 January 2018.
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

#### *Impairment*

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables, other receivables and receivables under service concession arrangements and deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### New and revised IFRSs in issue but not yet effective (Continued)

#### 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

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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors consider that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not consider that the application of IFRS 15 will have material impact on the timing and amounts of revenue recognised in the respective reporting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

### New and revised IFRSs in issue but not yet effective (Continued)

#### IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* (“IAS 17”) and the related interpretation when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold land where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB164,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSS”) (CONTINUED)

#### New and revised IFRSs in issue but not yet effective (Continued)

##### IFRS 16 *Leases* (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB60,000 and refundable rental deposits received of RMB264,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on 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 at the end of each reporting period, 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 these consolidated financial statements is 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, 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* (“IAS 36”).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. 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 entities controlled by 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of consolidation (Continued)

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.

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 in 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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 equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, 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 functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 accumulated impairment losses, if any. Operating concessions is recognised on a straight-line basis over the tenure of the service concession arrangements. Further details of operating concessions are set out in "Service concession arrangements" below.

### 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 relevant 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset is belonged. 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 whenever there is an indication that they may be impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment on tangible and intangible assets (Continued)

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 (or a cash-generating unit) 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 immediately in profit or loss.

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.

### 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 the Group's practical ability to sell or pledge the infrastructure is restricted and the continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Service concession arrangements (Continued)

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.

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.

#### *Operating services*

Revenue relating to operating services 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Service concession arrangements (Continued)

#### *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 tax currently payable and deferred tax.

The tax currently payable 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 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.

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 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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

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 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.

### Construction contracts

When the outcome of a construction contract (including construction or upgrade services of the infrastructure under a service concession agreement) 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 that 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

#### *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.

#### *Leasehold land and building*

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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.

### Inventories

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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, if any, 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Provisions (Continued)

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangements and installation and maintenance services, 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 or financial 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.

#### *Financial assets*

Financial assets are classified into the following specified categories: available-for-sale (“AFS”) financial assets 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

##### AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) financial assets at FVTPL.

AFS equity investments 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. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

##### 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, restricted bank balance, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

##### Impairment of financial assets (Continued)

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

For financial assets 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 through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable under service concession arrangement, 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.

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.

#### *Financial liabilities and equity instruments*

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial liabilities and equity instruments (Continued)*

##### 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 the Company are recognised at the proceeds received, net of direct issue costs.

##### Financial liabilities

Financial liabilities (including borrowings, trade and other payables) 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.

#### *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.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

#### *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.

#### *Sale of services*

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.

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 accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing above.

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgement, 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.

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

The financial statements of Jiangnan Water and Nanjiao Water (defined in note 9) 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 (i) agreements with an individual (who had 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively) for the period from 1 January 2016 to 2 February 2016; and (ii) agreements with a PRC limited liability company (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively) since 3 February 2016 that they agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company's instructions.

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

Note 16 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 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;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Critical judgements in applying accounting policies (Continued)

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

- the entire life of each infrastructure is 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.

#### 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 2017 are intangible assets recognised under service concession arrangements of RMB323.0 million (2016: RMB239.4 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 result 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 16.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Key sources of estimation uncertainty (Continued)

(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 the 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.

(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 *Provisions, contingent liabilities and contingent assets* ("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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 5. REVENUE

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Tap water supply		
– Tap water	207,391	179,353
– Installation and maintenance services	215,768	136,132
– Construction and upgrade services of tap water supply infrastructure	452,156	214,239
	<b>875,315</b>	529,724
Wastewater treatment		
– Operating services	151,746	125,885
– Interest income on receivables under service concession arrangements	35,662	27,158
– Construction and upgrade services of wastewater treatment infrastructure	19,021	153,424
	<b>206,429</b>	306,467
	<b>1,081,744</b>	836,191

## 6. 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 services and related construction services

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

The tap water supply segment includes the Company and its certain 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.

### 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	
	2017 RMB'000	2016 RMB'000
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	<b>207,391</b>	179,353
– Installation and maintenance services	<b>215,768</b>	136,132
– Construction and upgrade services of tap water supply infrastructure	<b>452,156</b>	214,239
– Inter-segment sales*		
– Tap water	<b>408</b>	644
Wastewater treatment		
– From external customers		
– Operating service	<b>151,746</b>	125,885
– Interest income on receivables under service concession arrangements	<b>35,662</b>	27,158
– Construction and upgrade services of wastewater treatment infrastructure	<b>19,021</b>	153,424
Elimination*	<b>(408)</b>	(644)
Revenue	<b>1,081,744</b>	836,191



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results (Continued)

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>Segment results</b>		
– Tap water supply**	73,059	81,998
– Wastewater treatment	77,352	60,596
Unallocated expenses	(7,722)	(1,798)
Profit after tax	142,689	140,796

\* Inter-segment sales for the years ended 31 December 2016 and 2017 were conducted at terms mutually agreed among the companies comprising the Group.

\*\* Based on the CODM's consideration, corporate expenses such as auditors' remuneration, directors' emoluments, other legal and professional fees are allocated to tap water supply segment.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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.

### Segment assets and liabilities

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

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Segment assets</b>		
– Tap water supply	2,114,395	1,512,283
– Wastewater treatment	1,150,461	1,127,716
Unallocated corporate assets	–	19,178
Elimination	(40)	(40)
Consolidated total assets	3,264,816	2,659,137

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment assets and liabilities (Continued)

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

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Segment liabilities</b>		
– Tap water supply	881,958	699,710
– Wastewater treatment	504,982	579,998
Unallocated corporate liabilities	–	8,196
Elimination	(40)	(40)
Consolidated total liabilities	<b>1,386,900</b>	1,287,864

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 (representing deferred listing expenses) and unallocated corporate liabilities (representing listing expenses payable).

### Other segment information

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>Interest income</b>		
– Tap water supply	1,887	1,537
– Wastewater treatment	36,117	27,499
	<b>38,004</b>	29,036
<b>Finance costs</b>		
– Tap water supply	(9,986)	(9,938)
– Wastewater treatment	(16,927)	(14,162)
	<b>(26,913)</b>	(24,100)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

### Other segment information (Continued)

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>Depreciation and amortisation</b>		
– Tap water supply	(43,132)	(29,643)
– Wastewater treatment	(7,259)	(5,886)
	<b>(50,391)</b>	<b>(35,529)</b>
<b>(Impairment losses) reversal of impairment losses on trade and other receivables</b>		
– Tap water supply	(280)	58
– Wastewater treatment	(47)	–
	<b>(327)</b>	<b>58</b>
<b>Gains on disposal of property, plant and equipment, prepaid lease payments and investment properties (note 7)</b>		
– Tap water supply	17	6,230
<b>Income tax expense</b>		
– Tap water supply	(13,197)	(14,305)
– Wastewater treatment	(7,283)	(10,711)
	<b>(20,480)</b>	<b>(25,016)</b>
<b>Provisions for maintenance of infrastructure under service concession arrangements</b>		
– Tap water supply	(26,268)	(22,296)
– Wastewater treatment	(32,326)	(21,914)
	<b>(58,594)</b>	<b>(44,210)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

### Other segment information (Continued)

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>Additions to non-current assets (other than financial instruments and deferred tax assets)</b>		
– Tap water supply	<b>(455,398)</b>	(211,215)
– Wastewater treatment	<b>(22,900)</b>	(163,580)
	<b>(478,298)</b>	(374,795)

The Group's revenue from its major products and services are set out in note 5.

### *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 tax assets are situated in the PRC.

### 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	
	2017 RMB'000	2016 RMB'000
Customer A		
– Operating service	<b>116,564</b>	99,453
– Interest income on receivables under service concession arrangements	<b>27,941</b>	21,441
– Construction and upgrade services of infrastructure	<b>415,737</b>	153,424
Customer B		
– Construction and upgrade services of infrastructure*	–	201,027

\* During the year ended 31 December 2017, Customer B was merged into Customer A and revenue from Customer B has been combined with that from Customer A.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 6. SEGMENT INFORMATION (CONTINUED)

### Information about major customers (Continued)

Revenue generated from operating service and interest income on receivables under service concession arrangements from Customer A are related to wastewater treatment segment for both years. For the year ended 31 December 2017, revenue generated from construction and upgrade services of infrastructure from Customer A is related to both tap water supply segment and wastewater treatment segment. For the year ended 31 December 2016, revenue generated from construction and upgrade services of infrastructure from Customer A is related to wastewater treatment segment, and that from Customer B is related to tap water supply segment.

## 7. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Bank interest income	2,342	1,878
Deferred revenue in respect of government grants recognised	7,233	6,488
Value-added-tax ("VAT") refunds ( <i>Note (a)</i> )	17,815	13,821
Commission income on garbage fees collected for governmental bureau	262	1,335
Late charges on tap water users	2,422	2,320
Rental income less outgoings	864	765
Gains on disposal of property, plant and equipment, net	17	3,830
Gains on disposal of prepaid lease payments	–	654
Gains on disposal of investment properties	–	1,746
(Impairment losses) reversal of impairment losses on trade and other receivables	(327)	58
Sewage charges	(116)	–
Foreign exchange losses, net	(17,581)	(478)
Donations	(264)	(146)
Others ( <i>Note (b)</i> )	2,077	1,126
	<b>14,744</b>	<b>33,397</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 7. 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 sanitary ware and other materials, etc.

## 8. FINANCE COSTS

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	23,231	26,578
Interest on other borrowings	2,438	2,943
Unwinding of the discount (Note 29)	5,427	3,605
	<b>31,096</b>	33,126
Less: Amount capitalised in qualified assets	<b>(4,183)</b>	(9,026)
	<b>26,913</b>	24,100

## 9. INCOME TAX EXPENSE

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Current year	24,959	24,490
Overprovision in prior year	<b>(1,569)</b>	–
Current tax	23,390	24,490
Deferred tax (Note 19)	<b>(2,910)</b>	526
Total income tax recognised in profit or loss	<b>20,480</b>	25,016



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law, the tax rate of the subsidiaries is 25% for both years, except for the following group entities:

Name of company	Applicable EIT rate	Financial years
The Company*	15%	Years ended 31 December 2016 and 2017
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 2016 and 2017
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.) ("Hejiang Water")*	15%	Years ended 31 December 2016 and 2017
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 2016 and 2017
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 2016 and 2017
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water")*	15%	Years ended 31 December 2016 and 2017
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 2016 and 2017
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment")**/**	nil or 15%	Years ended 31 December 2016 and 2017
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")***	15% 10%	Year ended 31 December 2017 Year ended 31 December 2016

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. 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 2016 and 2017, 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 2016 and 2017 accounted for more than 70% of their total revenue in these years, and therefore enjoy the preferential EIT rate of 15%.
- \*\* According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant ("Chengdong") and Chengnan Wastewater Treatment Plant ("Chengnan"), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rates of Chengdong and Chengnan are nil for the years ended 31 December 2016 and 2017. The EIT paid of Chengdong and Chengnan for the year ended 31 December 2016 have been offset against income tax expense of other plants of Xinglu Wastewater Treatment for the year ended 31 December 2017.
- \*\*\* Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the year ended 31 December 2016, small-scale and low profit margin companies with annual taxable income of no more than 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 satisfied the criteria of a small-scale and low profit margin company, it was eligible for the preferential effective tax rate of 10% in 2016.

As annual taxable income for the year ended 31 December 2017 of Sitong Design exceeds RMB200,000, Sitong Design doesn't satisfy the Amendment of the State Administration of Taxation 2015 No. 61. 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 year ended 31 December 2017, Sitong Design, which is located in the western region, is engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of its major business for the year ended 31 December 2017 accounted for more than 70% of its total revenue in this year, and therefore enjoys the preferential EIT rate of 15%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 9. INCOME TAX EXPENSE (CONTINUED)

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	
	2017 RMB'000	2016 RMB'000
Profit before tax	<b>163,169</b>	165,812
Tax at PRC EIT rate of 15% (Note)	<b>24,475</b>	24,872
Tax effect of expenses not deductible for tax purpose	<b>932</b>	124
Effect of tax exemption granted to Xinglu Wastewater Treatment	<b>(3,382)</b>	–
Effect of different applicable tax rates of subsidiaries	<b>24</b>	20
Overprovision in prior year	<b>(1,569)</b>	–
Income tax expense	<b>20,480</b>	25,016

Note: For the years ended 31 December 2017 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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 10. PROFIT BEFORE TAX

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
<b>Profit before tax has been arrived at after charging:</b>		
Depreciation of property, plant and equipment	5,160	6,627
Depreciation of investment properties	449	465
Amortisation of intangible assets	43,081	26,809
Amortisation of prepaid lease payments	1,701	1,628
<b>Total depreciation and amortisation</b>	<b>50,391</b>	35,529
Auditors' remuneration	2,100	1,180
Write-down of inventories	456	–
Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 11 below):		
– Salaries, wages and welfare	98,650	80,105
– Retirement benefit schemes contributions	18,024	15,734
<b>Total staff costs</b>	<b>116,674</b>	95,839
<b>and after crediting:</b>		
Gross rental income from investment properties	1,323	1,069
Less: Direct operating expenses incurred for investment properties that generated rental income	(459)	(304)
	<b>864</b>	765

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 11. 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				Total RMB'000
	Fees RMB'000	Salaries, wages, allowance and others RMB'000	Performance related incentive payments (note (f)) RMB'000	Retirement benefit scheme contributions RMB'000	
<b>2017</b>					
<i>Executive Directors</i>					
Mr. Zhang Qi	-	297	226	83	606
Mr. Liao Xing Yue	-	256	169	83	508
Mr. Wang Jun Hua	-	204	158	83	445
<i>Non- Executive Directors</i>					
Mr. Chen Bing	-	-	-	-	-
Mr. Yang Rong Gui (Note (a))	-	-	-	-	-
Ms. Xu Yan	-	-	-	-	-
Mr. Xie Xin (Note (a))	-	-	-	-	-
<i>Independent non-executive Directors</i>					
Mr. Gu Ming'an (Note (b))	75	-	-	-	75
Mr. Lin Bing (Note (b))	75	-	-	-	75
Mr. Cheng Hok Kai, Frederick (Note (b))	89	-	-	-	89
<i>Supervisors</i>					
Ms. Qu Mei	-	-	-	-	-
Mr. Zhu Yu Chuan	-	84	59	63	206
Mr. Xu Ke	-	-	-	-	-
Ms. Huang Mei	-	227	181	83	491
Ms. Xiang Min	-	100	29	65	194
Mr. Xuan Ming (Note (b))	-	-	-	-	-
Mr. Xiong Hua (Note (b))	-	-	-	-	-
	239	1,168	822	460	2,689

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

### Directors and supervisors (Continued)

	Other emoluments				Total RMB'000
	Fees RMB'000	Salaries, wages, allowance and others RMB'000	Performance related incentive payments (note (f)) RMB'000	Retirement benefit scheme contributions RMB'000	
<b>2016</b>					
<i>Executive Directors</i>					
Mr. Chen Bing	-	-	-	-	-
Mr. Yang Rong Gui	-	-	-	-	-
Mr. Zhang Qi	-	283	173	75	531
Mr. Wang Jun Hua	-	181	104	75	360
Ms. Xiang Min (Note (c))	-	152	15	44	211
Ms. Xu Yan	-	-	-	-	-
Mr. Liao Xing Yue	-	180	-	35	215
<i>Supervisors</i>					
Ms. Qu Mei	-	-	-	-	-
Ms. Huang Mei (Note (d))	-	219	139	75	433
Mr. Huang Xiao Lin (Note (e))	-	71	-	34	105
Mr. Zhu Yu Chuan	-	160	23	57	240
Mr. Xu Ke	-	-	-	-	-
Ms. Xiang Min (Note (c))	-	98	-	31	129
	-	1,344	454	426	2,224

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

### Directors and supervisors (Continued)

Notes:

- (a) Mr. Yang Rong Gui resigned as a non-executive director and Mr. Xie Xin was appointed as a non-executive director on 12 September 2017.
- (b) They were appointed on 31 March 2017.
- (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 shareholder representative supervisor on 1 June 2016 and was reappointed as an employee representative supervisor on 2 June 2016.
- (e) Mr. Huang Xiao Lin resigned as a supervisor on 13 July 2016.
- (f) The performance related incentive payment is determined by reference to the individual performance of the supervisors and approved by the Remuneration Committee (composed of an executive director and two independent non-executive directors).

Mr. Liao Xing Yue is the general manager of the Company for the two years ended 31 December 2017 and he assumes the role of the chief executive. His emoluments disclosed above included his services rendered as the general manager of the Company.

### Employees

Of the five individuals with the highest emoluments in the Group, 3 individuals (2016: 4 individuals) were executive directors and supervisors whose emoluments for the year ended 31 December 2017 are included in the disclosure above and the emoluments of the remaining 2 individuals (2016: 1 individual) were as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries, wages, allowance and others	465	251
Retirement benefit scheme contributions	165	75
Performance related incentive payments	384	139
	<b>1,014</b>	465

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

#### Employees (Continued)

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

	Year ended 31 December	
	2017	2016
	<i>(Number of employees)</i>	
Less than HK\$1,000,000	2	1

During the years ended 31 December 2017 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.

### 12. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend of RMB68,776,800 or RMB0.08 per share (tax inclusive) in respect of the year ended 31 December 2017 (2016: Nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

### 13. EARNINGS PER SHARE

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

	Year ended 31 December	
	2017	2016
Profit for the year attributable to the owners of the Company <i>(RMB'000)</i>	131,298	126,647
Weighted average number of ordinary shares issued ( <i>'000</i> )	812,065	641,116

During the year ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise of the over-allotment option granted by the Company in relation to the Global Offering (as defined in note 30(b)) because the exercise price of the over-allotment option was higher than the average market price for the Company's shares during the life of the over-allotment option.

No diluted earnings per share is presented for the year ended 31 December 2016 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 14. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b> <i>RMB'000</i>	<b>Machinery and office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Office furniture and fixtures</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Cost</b>					
At 1 January 2016	19,528	30,858	14,881	3,222	68,489
Additions	162	1,793	1,220	1,302	4,477
Disposals	(875)	(425)	(189)	-	(1,489)
At 31 December 2016	18,815	32,226	15,912	4,524	71,477
Additions	95	2,686	620	2,094	5,495
Disposals	-	(217)	(211)	-	(428)
<b>At 31 December 2017</b>	<b>18,910</b>	<b>34,695</b>	<b>16,321</b>	<b>6,618</b>	<b>76,544</b>
<b>Accumulated depreciation</b>					
At 1 January 2016	(6,317)	(11,482)	(9,290)	(1,660)	(28,749)
Provided for the year	(1,030)	(2,733)	(2,123)	(741)	(6,627)
Eliminated on disposals	340	379	182	-	901
At 31 December 2016	(7,007)	(13,836)	(11,231)	(2,401)	(34,475)
Provided for the year	(722)	(2,142)	(1,214)	(1,082)	(5,160)
Eliminated on disposals	-	205	206	-	411
<b>At 31 December 2017</b>	<b>(7,729)</b>	<b>(15,773)</b>	<b>(12,239)</b>	<b>(3,483)</b>	<b>(39,224)</b>
<b>Carrying amounts</b>					
<b>At 31 December 2017</b>	<b>11,181</b>	<b>18,922</b>	<b>4,082</b>	<b>3,135</b>	<b>37,320</b>
At 31 December 2016	11,808	18,390	4,681	2,123	37,002



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 14. 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

### 15. INVESTMENT PROPERTIES

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2016	18,780
Additions	649
Disposals	(2,024)
At 31 December 2016	17,405
Additions	161
<b>At 31 December 2017</b>	<b>17,566</b>
<b>Accumulated depreciation</b>	
At 1 January 2016	(4,597)
Provided for the year	(465)
Eliminated on disposals	1,016
At 31 December 2016	(4,046)
Provided for the year	(449)
<b>At 31 December 2017</b>	<b>(4,495)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2017</b>	<b>13,071</b>
At 31 December 2016	13,359

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%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. 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.

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 3, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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.

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 costs 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:

	<b>Luzhou urban area</b>	<b>Lu County area</b>	<b>Hejiang County area</b>
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: <ul style="list-style-type: none"><li>• 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</li></ul>	Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to: <ul style="list-style-type: none"><li>• apply for adjustments to the retail water prices in the event the Group cannot maintain profit in its tap water supply operations; and</li></ul>	Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to: <ul style="list-style-type: none"><li>• apply for adjustments to the retail water prices in the event the Group suffers loss due to irresistible objective conditions; and</li></ul>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area
Responsibilities	<ul style="list-style-type: none"> <li>reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul> <p>During the concession period, the Group shall:</p> <ul style="list-style-type: none"> <li>ensure uninterrupted tap water supply to end users;</li> <li>maintain water supply infrastructure;</li> <li>monitor the quality of raw water source;</li> <li>perform meter readings; and</li> <li>disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.</li> </ul>	<ul style="list-style-type: none"> <li>reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul> <p>During the concession period, the Group shall:</p> <ul style="list-style-type: none"> <li>ensure uninterrupted tap water supply to end users;</li> <li>maintain water supply infrastructure;</li> <li>monitor the quality of raw water source;</li> <li>perform meter readings; and</li> <li>disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.</li> </ul>	<ul style="list-style-type: none"> <li>reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul> <p>During the concession period, the Group shall:</p> <ul style="list-style-type: none"> <li>ensure uninterrupted tap water supply to end users;</li> <li>maintain water supply infrastructure;</li> <li>monitor the quality of raw water source;</li> <li>perform meter readings; and</li> <li>disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.</li> </ul>
Terms of termination	<p>Upon expiry of concession period or in the event of the Group's default, including (amongst others):</p> <ul style="list-style-type: none"> <li>asset disposal without permission;</li> </ul>	<p>Upon expiry of concession period or in the event of the Group's default, including (amongst others):</p> <ul style="list-style-type: none"> <li>asset disposal without permission;</li> </ul>	<p>Upon expiry of concession period or in the event of the Group's default, including (amongst others):</p> <ul style="list-style-type: none"> <li>fund raising activities not in compliance with the relevant provisions that resulted in unauthorised asset pledge or disposal;</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area
	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> <li>material quality or safety accidents; or</li> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> <li>material quality or safety accidents; or</li> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> <li>material quality or safety accidents; or</li> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>
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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area
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.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 16. 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 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 establishment of the service concession arrangement. 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 costs incurred to date plus recognised profits less recognised losses, if any, as 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:

	<b>Luzhou urban area</b>	<b>Lu County area</b>	<b>Gulin County area</b>	<b>Xuyong County area</b>	<b>Hejiang County area</b>
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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. 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:	During the concession period, the Group shall:	During the concession period, the Group shall:	During the concession period, the Group shall:	During the concession period, the Group shall:
	<ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols;</li> <li>not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period; and</li> <li>not dispose of assets without permission.</li> </ul>	<ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and</li> <li>not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and</li> <li>not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and</li> <li>not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and</li> <li>not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. 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): <ul style="list-style-type: none"> <li>• asset disposal without permission;</li> <li>• material quality or safety accidents;</li> <li>• cessation of wastewater treatment operation service without permission that affect public interest and safety; or</li> <li>• pledge of assets for borrowings used in projects other than wastewater treatment service under the concession agreement or beyond the concession period.</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
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.

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

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2016	1,173,146
Additions	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
Additions	482,177
<b>At 31 December 2017</b>	<b>1,633,384</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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

	<i>RMB'000</i>
<b>Accumulated amortisation</b>	
At 1 January 2016	(102,254)
Amortisation for the year	(26,809)
At 31 December 2016	(129,063)
Amortisation for the year	(43,081)
<b>At 31 December 2017</b>	<b>(172,144)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2017</b>	<b>1,461,240</b>
At 31 December 2016	1,022,144

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 2017, intangible assets recognised under service concession arrangements of RMB323.0 million (2016: RMB239.4 million) have yet to be in operation and have been allocated to individual CGUs in tap water supply and wastewater treatment segments.

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the CGUs as at 31 October 2017 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 12.3% to 16.5% (2016: 13.7% to 16.8%). 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 the 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 and considering that the assumptions used in the calculation are still applicable as at 31 December 2017, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2016 and 2017. The Directors also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 16. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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	
	2017 RMB'000	2016 RMB'000
Non-current portion	736,408	761,901
Current portion	14,493	11,294
	<b>750,901</b>	773,195
Expected collection schedule is analysed as follows:		
Within one year	14,493	11,294
More than one year, but not exceeding two years	16,590	14,493
More than two years, but not exceeding three years	18,079	16,821
More than three years, but not exceeding four years	18,904	18,325
More than four years, but not exceeding five years	19,770	19,163
Over five years	663,065	693,099
	<b>750,901</b>	773,195

The effective interest rates for the above financial assets fall within the range from 3.51% to 6.00% (2016: 3.51% to 6.00%) per annum.

Given (i) the counterparties in the Group's receivables under service concession 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 concession 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 17. PREPAID LEASE PAYMENTS

	At 31 December	
	2017 RMB'000	2016 RMB'000
Non-current portion	77,778	78,141
Current portion	1,764	1,637
	<b>79,542</b>	79,778

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

## 18. 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:

	Ownership interest	At 31 December	
		2017 RMB'000	2016 RMB'000
<b>At cost</b>			
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.	17.5%	52,530	52,530
Others		1,100	1,100
		<b>53,630</b>	53,630

## 19. DEFERRED TAX ASSETS AND LIABILITIES

	At 31 December	
	2017 RMB'000	2016 RMB'000
Deferred tax assets	9,007	5,104
Deferred tax liabilities	(12,615)	(11,622)
	<b>(3,608)</b>	(6,518)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 19. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

The movements in deferred tax assets (liabilities) for the years ended 31 December 2017 and 2016, without taking into account the offsetting of balances within the same tax jurisdiction, are as follows:

	Impairment of trade and other receivables <i>RMB'000</i>	Provisions <i>RMB'000</i>	Intangible assets and receivables under service concession arrangements <i>RMB'000</i> <i>(Note (a))</i>	Revaluation surplus of investment properties <i>RMB'000</i>	Installation revenue <i>RMB'000</i> <i>(Note (b))</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	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)
Credit (charge) to profit or loss	31	12,174	(7,328)	234	(2,258)	57	2,910
<b>At 31 December 2017</b>	<b>490</b>	<b>39,483</b>	<b>(32,374)</b>	<b>(2,499)</b>	<b>(9,506)</b>	<b>798</b>	<b>(3,608)</b>

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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 20. INVENTORIES

	At 31 December	
	2017 RMB'000	2016 RMB'000
Raw materials	27,128	15,871
Consumables	888	1,063
Finished goods	–	461
	<b>28,016</b>	17,395

### 21. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

	At 31 December	
	2017 RMB'000	2016 RMB'000
Costs incurred to-date plus recognised profits less recognised losses	10,464	8,470
Analysed for reporting purposes as: Amounts due from customers for contract work	10,464	8,470

### 22. TRADE RECEIVABLES

	At 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables	102,033	85,135
Less: allowance for doubtful debts	(1,604)	(1,418)
	<b>100,429</b>	83,717

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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 22. 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	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	<b>78,613</b>	50,661
Between 4 months and 6 months	<b>17,300</b>	4,133
Between 7 months and 12 months	<b>1,042</b>	2,609
Over 1 year	<b>3,474</b>	26,314
	<b>100,429</b>	83,717

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 which are past due but not impaired:

	At 31 December	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Overdue by:		
Within 3 months	<b>19,656</b>	6,076
Between 4 months and 6 months	<b>1,042</b>	2,609
Over 1 year	<b>3,474</b>	26,314
	<b>24,172</b>	34,999



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 22. TRADE RECEIVABLES (CONTINUED)

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

	At 31 December	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 January	1,418	1,420
Impairment losses (reversal of impairment losses) recognised on trade receivables	186	(2)
At 31 December	<b>1,604</b>	1,418

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 recoverable proceeds. The Group does not hold any collateral over these balances.

### 23. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Prepayments for inventories	4,827	4,058
Prepayments for prepaid lease payments	4,000	4,000
Due from the immediate holding company of the Company	–	20
Other receivables	13,886	7,969
Deferred listing expenses	–	19,178
Less: Impairment	<b>(1,592)</b>	(1,451)
	<b>21,121</b>	33,774
Less: Amount classified as non-current assets	<b>(4,000)</b>	(4,000)
Current assets	<b>17,121</b>	29,774

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 23. 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 was unsecured, interest-free and was repayable on demand. The amount was 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	
	2017 RMB'000	2016 RMB'000
At 1 January	1,451	1,507
Impairment losses (reversal of impairment losses) recognised on receivables	141	(56)
At 31 December	1,592	1,451

### 24. RESTRICTED BANK BALANCE, BANK BALANCES AND CASH

As at 31 December 2016, the restricted bank balance was deposited with a bank for issuing a performance bond and was released in May 2017.

As at 31 December 2017, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.265% (2016: from 0.30% to 1.00%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 25. BORROWINGS

	At 31 December	
	2017 RMB'000	2016 RMB'000
Unsecured bank borrowings without corporate guarantee (Note (a))	215,000	220,000
Unsecured bank borrowings with corporate guarantee (Note (b))	187,500	260,000
Secured bank borrowings (Note (c))	130,500	134,000
Unsecured other borrowing (Note (d))	3,759	5,283
Unsecured other borrowing with corporate guarantee (Note (e))	66,000	66,000
	<b>602,759</b>	685,283
The carrying amounts repayable:		
Within one year or on demand	289,574	319,674
Within a period of more than one year but not exceeding two years	80,574	64,674
Within a period of more than two years but not more than five years	130,611	165,935
Within a period of more than five years	102,000	135,000
	<b>602,759</b>	685,283
Less: Amounts due within one year shown under current liabilities	<b>(289,574)</b>	(319,674)
Amounts shown under non-current liabilities	<b>313,185</b>	365,609
The Group's borrowings are analysed as:		
– At fixed rates	136,000	106,000
– At floating rates	466,759	579,283
	<b>602,759</b>	685,283



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 25. BORROWINGS (CONTINUED)

Notes:

- (a) 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.

As at 31 December 2017, included in the unsecured bank borrowings is a bank borrowing of RMB70,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at a floating rate of 4.35% per annum. These bank borrowings are repayable from March 2018 to November 2018.

- (b) (i) 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 repayments are guaranteed by the group companies at nil consideration. The remaining bank borrowing represents a bank borrowing which bears interest at a floating rate of 5.64% per annum, is repayable by instalments from June 2017 to December 2021 and its repayment is jointly guaranteed by the Company and its immediate holding company at nil consideration.
- (ii) As at 31 December 2017, the unsecured bank borrowings included bank borrowings of RMB10,000,000, RMB90,000,000 and RMB87,500,000 which bear interest at floating rates of 4.79% per annum, 5.15% per annum and 5.64% per annum, respectively, and are repayable in February 2018, by instalments till December 2024 and by instalments from January 2018 to December 2021. Their repayments are guaranteed by the group companies at nil consideration.
- (c) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and certain land and they bear interest at a floating rate of 4.90% (as at 31 December 2016: 4.90%) per annum as at 31 December 2017. The repayments of these bank borrowings as at 31 December 2016 were guaranteed by the Company's immediate holding company and such guarantees were released during the year ended 31 December 2017. The repayments of these bank borrowings as at 31 December 2017 are guaranteed by the Company, at nil consideration. These secured bank borrowings are repayable by instalments from May 2018 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 1.11% to 2.02% per annum and is repayable by installments till August 2021.
- (e) The other borrowing represents 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 26. TRADE PAYABLES

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

	At 31 December	
	2017 RMB'000	2016 RMB'000
Within 6 months	18,694	7,599
Between 7 months and 12 months	811	677
Over 1 year	2,247	2,166
	<b>21,752</b>	10,442

The credit period on purchases are generally within 6 months.

### 27. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	At 31 December	
	2017 RMB'000	2016 RMB'000
Advances from customers	120,517	52,677
Wages and welfare payable	15,797	19,731
Other taxes payable	6,803	4,116
Construction payables	228,519	172,313
Payables for purchases of wastewater treatment plants	9,386	9,386
Listing expenses payable	–	8,196
Payables to governmental bureau	41,796	42,365
Other payables	8,632	11,131
	<b>431,450</b>	319,915

### 28. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 29. PROVISIONS

	At 31 December	
	2017 RMB'000	2016 RMB'000
At 1 January	110,758	73,582
Provisions recognised	58,594	44,210
Unwinding of discount	5,427	3,605
Payments	(14,214)	(10,639)
At 31 December	160,565	110,758
Less: Amount classified as current liabilities	(4,902)	(14,214)
Non-current portion	155,663	96,544

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 rate as at 31 December 2017 is 4.90% (2016: 4.90%) per annum.

### 30. SHARE CAPITAL

	At 31 December	
	2017 RMB'000	2016 RMB'000
At beginning of the year	664,310	600,000
Capital injections (Note (a))	–	64,310
Issue of new ordinary shares (Note (b))	195,400	–
At end of the year	859,710	664,310



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 30. SHARE CAPITAL (CONTINUED)

	At 31 December	
	2017 '000	2016 '000
Shares of RMB1 each		
– Domestic shares ( <i>Note (b)</i> )	644,770	664,310
– H shares	214,940	–
	<b>859,710</b>	664,310

*Notes:*

- (a) In May 2016, 57,290,000 and 7,020,000 new ordinary shares were issued at approximately RMB2.077 each to Luzhou Infrastructure and Luzhou Laojiao, respectively, of which, RMB64,310,000 and RMB69,270,000 were credited as fully paid-up share capital of the Company and capital reserves of the Company, respectively.
- (b) On 31 March 2017, 195,400,000 of new ordinary H shares of RMB1 each of the Company were issued at a price of HK\$2.30 (equivalent to RMB2.04) each by way of global offering (the “Global Offering”) and 19,540,000 domestic shares were converted into H shares. The proceeds of HK\$220,095,000 (equivalent to approximately RMB195,400,000) representing the nominal value of the new ordinary shares of the Company, were credited to the Company’s share capital. The remaining proceeds of approximately HK\$229,325,000 (equivalent to approximately RMB203,595,000), before issuing expenses of RMB33,837,000, were credited to the Company’s capital reserves.

Domestic shares and H shares rank pari passu in all respects with each other. Domestic shares are not eligible for trading on the Main Board of the Stock Exchange of Hong Kong Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Name of company	Date of establishment	Equity interest attributable to the Group as at 31 December		Paid-up registered capital	Principal activities
		2017	2016		
Beijiao Water	25 March 2004	<b>86.78%</b>	86.78%	RMB43,909,360	Provision of water supply service
Hejiang Water	26 April 1999	<b>85.93%</b>	85.93%	RMB8,639,500	Provision of water supply service
Jiangnan Water*	7 March 2003	<b>49.96%</b>	49.96%	RMB6,520,000	Provision of water supply service
Naxi Water	17 March 2003	<b>76.64%</b>	76.64%	RMB4,380,000	Provision of water supply service
Nanjiao Water*	18 September 2002	<b>45.79%</b>	45.79%	RMB9,766,000	Provision of water supply service
Sitong Engineering	2 September 2002	<b>79.38%</b>	79.38%	RMB5,010,000	Provision of engineering construction service
Sitong Design	6 September 2002	<b>67.38%</b>	67.38%	RMB500,000	Provision of water supply and drainage design service
Xinglu Wastewater Treatment	11 December 2000	<b>98.00%</b>	98.00%	RMB268,408,200	Provision of wastewater treatment service
Luzhou Water Crystal Mall	23 February 1996	<b>100.00%</b>	100.00%	RMB520,000	Sale of materials

\* The Directors consider that these entities are controlled by the Company because the Company holds majority voting right in their shareholders' meetings according to (i) agreements with an individual (who had 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively) for the period from 1 January 2016 to 2 February 2016; and (ii) agreements with a PRC limited liability company (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively) since 3 February 2017 that they agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company's instructions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

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

None of the subsidiaries had issued any debt securities at the end of the year.

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		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	At 31 December		Year ended 31 December		At 31 December	
	2017 %	2016 %	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Beijiao Water	13.22	13.22	277	81	15,330	15,634
Hejiang Water	14.07	14.07	1,415	1,385	6,802	5,509
Jiangnan Water	50.04	50.04	9,119	9,482	43,237	34,444
Naxi Water	23.36	23.36	111	413	5,499	5,429
Nanjiao Water	54.21	54.21	(1,348)	433	5,267	7,038
Xinglu Wastewater Treatment	2.00	2.00	1,548	1,212	12,910	10,954
Individually immaterial subsidiaries with non-controlling interests			269	1,143	2,631	2,481
			11,391	14,149	91,676	81,489

### Changes in ownership interest in subsidiaries

There was no change in the Company's ownership interest in its subsidiaries in 2017.

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.

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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Beijiao Water

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	19,238	11,456
Non-current assets	111,824	117,692
Current liabilities	3,750	3,917
Non-current liabilities	11,345	6,970
Equity attributable to owners of the Company	100,637	102,627
Non-controlling interests	15,330	15,634

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	43,656	38,950
Expenses	(41,559)	(39,624)
Profit (loss) for the year	2,097	(674)
Profit (loss) and total comprehensive income (expense) attributable to owners of the Company	1,820	(755)
Profit and total comprehensive income attributable to non-controlling interests	277	81
Capital contribution by the Company	–	80,377
Dividends declared to non-controlling interests	581	–
Dividends paid to owners of the Company	3,810	–
Net cash inflow from operating activities	11,931	9,689
Net cash outflow from investing activities	–	(989)
Net cash outflow from financing activities	(4,391)	(3,000)
Net cash inflow	7,540	5,700

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Hejiang Water

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	28,491	40,924
Non-current assets	92,433	43,473
Current liabilities	58,241	28,538
Non-current liabilities	14,336	16,705
Equity attributable to owners of the Company	41,545	33,645
Non-controlling interests	6,802	5,509
	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	83,346	43,378
Expenses	(73,289)	(33,536)
Profit for the year	10,057	9,842
Profit and total comprehensive income attributable to owners of the Company	8,642	8,457
Profit and total comprehensive income attributable to non-controlling interests	1,415	1,385
Dividends declared to non-controlling interests	122	–
Dividends paid to owners of the Company	742	–
Net cash inflow from operating activities	36,865	16,416
Net cash outflow from investing activities	(47,311)	(2,842)
Net cash outflow from financing activities	(847)	–
Net cash (outflow) inflow	(11,293)	13,574

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Jiangnan Water

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	58,215	46,041
Non-current assets	89,137	69,880
Current liabilities	48,883	38,222
Non-current liabilities	12,065	8,867
Equity attributable to owners of the Company	43,167	34,388
Non-controlling interests	43,237	34,444
	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	71,017	49,444
Expenses	(52,793)	(30,496)
Profit for the year	18,224	18,948
Profit and total comprehensive income attributable to owners of the Company	9,105	9,466
Profit and total comprehensive income attributable to non-controlling interests	9,119	9,482
Dividends declared to non-controlling interests	326	–
Dividends paid to owners of the Company	326	–
Net cash inflow from operating activities	17,814	21,029
Net cash outflow from investing activities	(2,772)	(3,547)
Net cash inflow (outflow) from financing activities	646	(14,820)
Net cash inflow	15,688	2,662



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Naxi Water

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	18,901	11,674
Non-current assets	72,026	41,085
Current liabilities	62,618	25,274
Non-current liabilities	4,770	4,246
Equity attributable to owners of the Company	18,040	17,810
Non-controlling interests	5,499	5,429
	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	57,590	26,951
Expenses	(57,116)	(25,182)
Profit for the year	474	1,769
Profit and total comprehensive income attributable to owners of the Company	363	1,356
Profit and total comprehensive income attributable to non-controlling interests	111	413
Dividends declared to non-controlling interests	41	–
Dividends paid to owners of the Company	133	–
Net cash (outflow) inflow from operating activities	(1,785)	4,296
Net cash outflow from investing activities	(2,648)	(2,317)
Net cash inflow (outflow) from financing activities	9,064	(326)
Net cash inflow	4,631	1,653

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Nanjiao Water

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	3,357	4,294
Non-current assets	17,378	16,445
Current liabilities	7,640	6,618
Non-current liabilities	3,380	1,139
Equity attributable to owners of the Company	4,448	5,944
Non-controlling interests	5,267	7,038
	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Revenue	16,924	19,545
Expenses	(19,410)	(18,747)
(Loss) profit for the year	(2,486)	798
(Loss) profit and total comprehensive income attributable to owners of the Company	(1,138)	365
(Loss) profit and total comprehensive income attributable to non-controlling interests	(1,348)	433
Dividends declared to non-controlling interests	423	–
Dividends paid to owners of the Company	358	–
Net cash (outflow) inflow from operating activities	(506)	2,459
Net cash outflow from investing activities	(434)	(3,973)
Net cash inflow from financing activities	1,007	1,852
Net cash inflow	67	338

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

### Xinglu Wastewater Treatment

	At 31 December	
	2017 RMB'000	2016 RMB'000
Current assets	<b>216,092</b>	172,373
Non-current assets	<b>934,369</b>	955,343
Current liabilities	<b>134,123</b>	216,170
Non-current liabilities	<b>370,859</b>	363,828
Equity attributable to owners of the Company	<b>632,569</b>	536,764
Non-controlling interests	<b>12,910</b>	10,954
	<b>Year ended 31 December</b>	
	2017 RMB'000	2016 RMB'000
Revenue	<b>206,429</b>	306,467
Expenses	<b>(129,076)</b>	(245,871)
Profit for the year	<b>77,353</b>	60,596
Profit and total comprehensive income attributable to owners of the Company	<b>75,805</b>	59,384
Profit and total comprehensive income attributable to non-controlling interests	<b>1,548</b>	1,212
Capital contribution by the Company	<b>20,000</b>	80,362
Capital contribution by a non-controlling shareholder	<b>408</b>	1,640
Dividends declared to non-controlling interests	–	–
Dividends paid to owners of the Company	–	–
Net cash inflow from operating activities	<b>21,552</b>	172,450
Net cash outflow from investing activities	<b>(7,223)</b>	(158,058)
Net cash outflow from financing activities	<b>(7,702)</b>	(35,432)
Net cash inflow (outflow)	<b>6,627</b>	(21,040)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 32. 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 from prior year.

The capital structure of the Group consists of net debts, which includes borrowings disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, capital reserves, statutory surplus reserves, 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	
	2017 RMB'000	2016 RMB'000
Debts ( <i>note 1</i> )	602,759	685,283
Less: Restricted bank balance, bank balances and cash	(700,075)	(531,569)
Net debts	(97,316)	153,714
Total equity ( <i>note 2</i> )	1,877,916	1,371,273
Net debts to equity ratio	(5.2%)	11.2%

Notes:

1. Debts comprise long-term and short-term borrowings as detailed in note 25.
2. Total equity includes all capital and reserves attributable to the owners of the Company and non-controlling interests.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 33. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Financial assets</b>		
Loans and receivables	1,574,699	1,395,019
Available-for-sale investments	53,630	53,630
<b>Financial liabilities</b>		
Amortised costs	928,641	958,847

### Financial risk management objectives and policies

The Group's major financial instruments include receivables under service concession arrangements, available-for-sale investments, trade and other receivables, restricted bank balance, bank balances and cash, trade and other payables 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 management manages and monitors 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 is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk in relation to 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 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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### *Interest rate risk (Continued)*

If interest rates on 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	
	2017 RMB'000	2016 RMB'000
Decrease in post-tax profit	397	492

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

The cash flow interest risk on bank balances is considered insignificant.

#### *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 and raised funds in HK\$ in the Global Offering. 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 assets (liabilities) at the end of the reporting period are as follows:

	At 31 December	
	2017 RMB'000	2016 RMB'000
Borrowings – US\$	(3,759)	(5,283)
Bank balances – HK\$	212,218	–
	208,459	(5,283)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### *Foreign currency risk (Continued)*

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Increase (decrease) in post-tax profit	8,860	(225)

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

#### *Credit risk*

As at 31 December 2017, 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 amounts 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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### *Credit risk (Continued)*

The Group's credit risk is primarily attributable to its trade and other 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 73.4% (2016: 79.3%) of total trade receivables and receivables under service concession arrangements as at 31 December 2017 were due from the largest customers as set out in note 6.

#### *Liquidity risk*

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 table 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 25 and 30, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 33. FINANCIAL INSTRUMENTS (CONTINUED)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates 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 RMB'000	6 months to 1 year RMB'000	1 to 2 years RMB'000	More than 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
<b>At 31 December 2017</b>							
Borrowings							
– Fixed rate	2.82%	41,760	30,692	803	75,216	148,471	136,000
– Variable rate	4.88%	119,198	117,854	90,614	184,113	511,779	466,759
Trade and other payables		325,882	–	–	–	325,882	325,882
		486,840	148,546	91,417	259,329	986,132	928,641
<b>At 31 December 2016</b>							
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

#### 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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 34. OPERATING LEASES

### The Group as lessee

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December	
	2017 RMB'000	2016 RMB'000
Within one year	154	12
In the second to fifth years, inclusive	10	–
	<b>164</b>	12

### The Group as lessor

Property rental income earned during the year by the Group was RMB1,323,000 (2016: RMB1,069,000) for the year ended 31 December 2017.

All of the Group's investment properties are held for rental purposes. They are expected to generate rental on an ongoing basis.

At the end of reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 31 December	
	2017 RMB'000	2016 RMB'000
Within one year	394	141
In the second to fifth years, inclusive	268	338
	<b>662</b>	479

## 35. CAPITAL COMMITMENTS

	At 31 December	
	2017 RMB'000	2016 RMB'000
Capital expenditure contracted but not provided for: constructing and upgrading infrastructure	<b>386,772</b>	163,440

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>Borrowings</b> <i>RMB'000</i> <i>(Note 25)</i>
At 1 January 2017	<b>685,283</b>
Financing cash flows	<b>(107,923)</b>
Interest on borrowings recognised	<b>25,669</b>
Foreign exchange translation	<b>(270)</b>
At 31 December 2017	<b>602,759</b>

### 37. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2017, there was no major non-cash transaction.

During the year ended 31 December 2016, the Group had the following major non-cash transaction:

- (a) As disclosed in note 16, 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 amount of 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 31, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 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.

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:

	Notes	Related parties	Year ended 31 December	
			2017 RMB'000	2016 RMB'000
Tap water supply income	(i)	Shareholders and fellow subsidiaries	1,951	2,008
Installation service income received	(ii)	Shareholders and fellow subsidiaries	12,896	14,211
Water quality testing income	(iii)	A shareholder and fellow subsidiaries	106	285
Property management fees	(iv)	A fellow subsidiary	(2,983)	(3,215)
Interest expense	(v)	Immediate holding company of the Company	-	(2,568)
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 THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 38. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (i) Tap water supply income 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 that bore interest at a fixed rate of 8.20% per annum and was fully repaid in April 2016.
- (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 2016, 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 25. Such guarantees were released during the year ended 31 December 2017.
- (b) During the years ended 31 December 2017 and 2016, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.
- (c) Compensation of directors, supervisors and key management personnel.

The remuneration of directors, supervisors and other members of key management during the year are as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Short-term benefits	3,772	3,091

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Non-current Assets</b>		
Property, plant and equipment	17,898	18,482
Prepaid lease payments	11,597	11,803
Intangible assets	976,986	654,871
Prepayments for prepaid lease payments	4,000	4,000
Available-for-sale investments	53,630	53,630
Investments in subsidiaries	562,949	542,949
Deferred tax assets	3,407	–
	<b>1,630,467</b>	1,285,735
<b>Current Assets</b>		
Inventories	15,085	8,117
Trade receivables	23,546	20,423
Prepaid lease payments	260	260
Amounts due from customers for contract work	8,995	15,032
Amounts due from subsidiaries	32,223	19,765
Prepayments and other receivables	8,152	23,546
Bank balances and cash	483,719	336,422
	<b>571,980</b>	423,565
<b>Current Liabilities</b>		
Trade payables	18,259	7,693
Tax liabilities	10,601	7,516
Borrowings	191,074	221,174
Advances from customers and other payables	285,945	182,573
Provisions	880	12,103
	<b>506,759</b>	431,059
<b>Net Current Assets (Liabilities)</b>	<b>65,221</b>	(7,494)
<b>Total Assets Less Current Liabilities</b>	<b>1,695,688</b>	1,278,241

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

## 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	At 31 December	
	2017 RMB'000	2016 RMB'000
<b>Capital and Reserves</b>		
Share capital	859,710	664,310
Share premium and reserves	633,038	420,156
<b>Total Equity</b>	<b>1,492,748</b>	1,084,466
<b>Non-current Liabilities</b>		
Deferred tax liabilities	–	229
Borrowings	143,685	160,109
Deferred revenue	18,900	16,281
Provisions	40,355	17,156
	<b>202,940</b>	193,775
	<b>1,695,688</b>	1,278,241



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

#### Movements of the Company's reserves

	Capital reserves <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	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	<b>235,576</b>	<b>6,018</b>	<b>178,562</b>	<b>420,156</b>
Profit and total comprehensive income for the year	–	–	43,124	43,124
Appropriation for the year	–	7,765	(7,765)	–
Issue of new ordinary shares	203,595	–	–	203,595
Listing expenses related to the issue of ordinary shares	(33,837)	–	–	(33,837)
At 31 December 2017	<b>405,334</b>	<b>13,783</b>	<b>213,921</b>	<b>633,038</b>