



**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

**2019**  
**ANNUAL REPORT**

\* For identification purposes only

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# 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. Chen Bing (陳兵先生)  
Ms. Xu Yan (徐燕女士)  
Mr. Xie Xin (謝欣先生)

### 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)

## JOINT 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, the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

40th Floor, Sunlight Tower  
No.248 Queen's Road East  
Wanchai, Hong Kong

## DOMESTIC SHARE REGISTRAR:

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

## CHAPTER I CORPORATE INFORMATION (Continued)

### H SHARE REGISTRAR:

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

### LEGAL ADVISER:

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

Luk & Partners  
In Association with Morgan, Lewis & Bockius  
Suites 1902–09, 19th Floor  
Edinburgh Tower, The Landmark  
15 Queen’s 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 12 June 2020, or any adjournment thereof
“Articles of Association”	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“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 non-wholly owned subsidiary of the Company, mainly engaged in tap water production business
“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)
“Board”	the board of Directors
“Company” or “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
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB
“Fanxing Environmental”	Luzhou Fanxing Environmental Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business

## CHAPTER II DEFINITIONS (Continued)

“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
“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 non-wholly owned subsidiary of the Company, mainly engaged in tap water production and sale
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IPO”	the initial public offering of the Company’s H Shares on the Main Board of the Hong Kong Stock Exchange on 31 March 2017
“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 wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
“Leshan Xingjia”	Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.* (樂山市興瀘水務興嘉環保科技有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Luzhou Laojiao”	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), 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), one of our Shareholders
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

## CHAPTER II DEFINITIONS (Continued)

“Nanjiao Water”	Luzhou Nanjiao Water Co., Ltd.* (瀘州市南郊水業有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in tap water production business
“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 wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
“PRC” or “China”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus dated 21 March 2017 in relation to the IPO
“Reporting Period”	For the year ended 31 December 2019
“RMB” or “Yuan”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
“Shareholder(s)”	the holder(s) of the Share(s)
“Sitong Design”	Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.* (瀘州市四通給排水工程設計有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply and drainage design service
“Sitong Engineering”	Luzhou Sitong Tap Water Engineering Co., Ltd.* (瀘州市四通自來水工程有限公司), a wholly-owned subsidiary of the Company, mainly engaged in the provision of engineering construction service
“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

## CHAPTER II DEFINITIONS (Continued)

“Weiyuan Qingxi Water”	Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd. (興瀘水務(集團)威遠清溪水務有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply service
“Weiyuan Installation Company”	Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.* (威遠城市供排水安裝工程有限公司), a non-wholly owned subsidiary, mainly engaged in the provision of engineering construction service
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), our Controlling Shareholder
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“Xingxu Water”	Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (瀘州市興瀘水務(集團)興敘水業有限公司), a non-wholly-owned subsidiary of the Company, mainly engaged in the provision of water supply service
“Yongxing Water”	Xuyong Yongxing Water Governance Co., Ltd. * (敘永縣永星水環境治理有限公司)
“%”	per cent

\* For the identification purpose only



## CHAPTER III CHAIRMAN'S STATEMENT

# Intelligence Makes Breakthrough Leapfrog Development Creates Excellent Performance

**Zhang Qi**  
Chairman of the Board



## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

I hereby present the annual report of the Group for the year ended 31 December 2019 on behalf of the Board.

In 2019, supported by all Shareholders and led by the Board, the staff of the Company forged ahead, exploring and innovating. Under the strategy of “keeping a foothold in the main business of water supply and drainage, expanding the environmental protection business, building industrial clusters and becoming a specialist in water security”, we carried out work in line with the country’s strategies of environmental protection and rural revitalization, and maintained steady growth in operating results, realizing rapid and quality development.

### BUSINESS REVIEW

During the Reporting Period, the Group rose to complicated and changeable situations by proactively improving project management and ultimately achieved stable progress in operating results. Particularly, it recorded a total revenue of approximately RMB2,067.1 million, representing an increase of approximately 69.7% as compared to the year ended 31 December 2018; total profits of approximately RMB201.5 million for the year, representing an increase of approximately 20.5% as compared to the year ended 31 December 2018; basic earnings per share was RMB0.22, increased by approximately 22.2% as compared to the year ended 31 December 2018. The Board resolved to recommend the distribution of final dividends of RMB0.06 per share (tax inclusive) to the Shareholders for returning their long-term support to the Company.

### INTELLIGENCE BUILDING

To promote “smart water”, the Group implemented automation transformation for all outdated water plants and further upgraded them to smart facilities under the “Internet + production management” model; introduced unattended technology at booster stations, and accelerated DMA (District Metered Area) construction of pipe network for intelligent leakage management; built the management platform for secondary water supply; established the province’s first 3G video monitoring system for the trunk pipes intercepting urban wastewater to develop a plant-network early warning model for pollution control enterprises into our core technology.

### BUSINESS EXPANSION

As at the latest practicable date, the Group’s business expansion advanced remarkably. 7 projects, including the acquisition of Fanxing Environmental were implemented, through which, the Group stepped into the market of urban wastewater treatment to explore an universal model for managing and controlling water supply and drainage in urban areas. Outside the region, the Group has enhanced competitiveness significantly by implementing the tap water project in Bolei county, Liangshan Prefecture, the wastewater treatment project in the European Industrial Town (歐洲產業城), Qingbaijiang District, Chengdu City and the wastewater treatment project in the industrial zone of Dechang county, Liangshan Prefecture, which boosted the Company’s sustainable development and strengthened its clout in Sichuan Province.

## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

### PROJECT CONSTRUCTION

Through scientific management, the Company made solid progress in project construction. At the end of the Reporting Period, Hejiang Huangxi Water Plant Phase I, Naxi Water Plant Phase I, Nanjiao Second Water Plant Phase II were completed most of the construction, the capacity expansion project of Erdaoxi Wastewater Treatment Plant completed construction of production line A and started trial run, consolidating the Company's main business base.

### CORPORATE GOVERNANCE

Strengthening management and implementation of internal control efficiency. The Company optimized the production process, integrated production factors, established a standardized production management mode and supervision system; vigorously implemented the strategy of strengthening the enterprise by talents, established a dual-channel mechanism for talent development; sorted out and improved the Company's risk management and control system, reinforced various risk prevention strategies and measures; leveraged the mobile Internet to launch online business hall, created water charge payment function through cloud flash payment, and promote household water meters transformation, effectively improving service quality and business environment.

### FUTURE PROSPECT

In 2020, by leveraging the development of "Chengdu-Chongqing Double-City Economic Circle" and closely focusing on the development goals of "reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development", the Group aims to enhance its internal governance capabilities, proceed with smart water construction, maintain efficient and safe operation, seek new profit growth points, promote high-quality development, so as to continuously bring generous returns to the Shareholders.

### ACKNOWLEDGEMENT

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

**Zhang Qi**  
*Chairman of the Board*  
Luzhou, the PRC  
27 March 2020

## CHAPTER IV FINANCIAL HIGHLIGHTS

As a listed company of integrated water supply and drainage, the Company has both the goals of profitability and public welfare. For the profitability, growth and the Company's management ability of the operations cared by the investors, we focus on selecting indicators related to profitability in the financial review such as revenue, cost, expenses, gross profit and gross profit margin, profit after tax and profit margin, etc., in order to analyze the Company's profitability and future trends so that the investors can better understand the Company's profitability and growth. We have chosen to make analysis and explanation of major assets, major current accounts and operational management capability indicators such as inventory turnover days and accounts receivable turnover days, so that investors and stakeholders can better understand the Company's financial position and management's operation management capabilities. Please see the analysis below for more details:

### 4.1 CONSOLIDATED RESULTS

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	<b>2,067,132</b>	1,218,206	1,081,744	836,191	911,896
Profit before tax	<b>231,994</b>	186,630	163,169	165,812	170,352
Income tax expense	<b>(30,471)</b>	(19,388)	(20,480)	(25,016)	(25,934)
Profit for the year	<b>201,523</b>	167,242	142,689	140,796	144,418
Profit and total comprehensive income for the year attributable to:					
– Owners of the Company	<b>190,960</b>	153,451	131,298	126,647	130,412
– Non-controlling interests	<b>10,932</b>	13,177	11,391	14,149	14,006
	<b>201,892</b>	166,628	142,689	140,796	144,418
Return on average equity <sup>(Note)</sup>	<b>9.9%</b>	8.7%	8.8%	11.4%	16.50%
Basic earnings per share (RMB)	<b>0.22</b>	0.18	0.16	0.20	0.22

*Note:* 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				
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Total assets	<b>5,815,603</b>	3,811,837	3,264,816	2,659,137	2,059,228
Total liabilities	<b>(3,688,125)</b>	(1,854,926)	(1,386,900)	(1,287,864)	(963,971)
Total equity	<b>2,127,478</b>	1,956,911	1,877,916	1,371,273	1,095,257
Equity attributable to owners of the Company	<b>2,019,412</b>	1,880,035	1,786,240	1,289,784	1,031,381
Non-controlling interests	<b>108,066</b>	76,876	91,676	81,489	63,876
	<b>2,127,478</b>	1,956,911	1,877,916	1,371,273	1,095,257

# CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

## 5.1 INDUSTRY OVERVIEW

In 2019, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Provisions for the Supervision of Ecological Environment Protection (《生態環境保護督察工作規定》), which reflects the determination of the Party Central Committee and the State Council to promote ecological civilization and strengthen ecological environment protection. The Ministry of Finance published the Measures for the Administration of Funds for Water Pollution Prevention and Control (《水污染防治資金管理辦法》), which financially supports water pollution prevention and control and water environmental protection by enterprises in the water and environmental protection industry. The Department of Housing and Urban-Rural Development of Sichuan Province, the Department of Ecology and Environment of Sichuan Province and the Development and Reform Commission of Sichuan Province jointly announced the Three-Year Action Plan for Improving Quality and Efficiency in Urban Wastewater Treatment (《四川省城鎮污水處理提質增效三年行動實施方案》) to continue to promote the construction, renovation and repairment of the pipeline networks of urban municipal wastewater treatment, accelerate the full coverage, full collection, and full treatment of wastewater pipeline networks, promote the black and foul water treatment in cities, and construct and upgrade wastewater treatment facilities. Meanwhile, as the security of water supply in urban and rural areas carries more weight, local governments are working to integrate small water firms, which represents opportunities for water enterprises to improve their quality and efficiency.

As more and more market players join in, the water industry is diversifying. At the same time, its concentration ratio continues to rise as a result of fierce competition, integration and organization. Therefore, to stay competitive and seize market opportunities, the Company must learn to strengthen areas of weakness, optimize management services, improve standards and develop core technologies, make large-scale mergers and acquisitions and provide guarantee with innovative financing. In addition, with the potential of the smart water market waiting to be unleashed, water informationization will become a trend of the water supply industry.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.2 DEVELOPMENT STRATEGY AND OUTLOOK

In 2020, by closely focusing on the ideas of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, we’ll comprehensively improve the level of scientific management, further deepen reforms, integrate resources, restructure configurations, and build the concept of integrated water services to improve the internal governance capabilities, enhance the internal supervision mechanisms and authorization management mechanisms, further streamline the management and control mechanisms, and improve the internal management environment. In addition, we’ll continue to maintain healthy and benign operations, promote refinement in the production process, to achieve system control and improve the fund management system, as well as energy saving and efficiency improvement.

Moreover, we’ll make efforts to build core competitiveness, vigorously promote the construction of smart water services, to form our own core technologies in the management of secondary supply platforms, leakage management, “Internet + production and operation” platforms, etc., and enable us to form core competitiveness in future foreign business expansion and to realize new profit growth points. Furthermore, we’ll continue to adhere to the “going out” strategy and deepen the township and rural Wastewater Treatment markets while consolidating the existing water supply and drainage business. We’ll also strengthen project company management, improve risk prevention and control, and build a batch of high-quality and efficient projects for external expansion, so as to establish a good demonstration effect, and enhance the Company’s brand reputation and influence in the industry.

### 5.3 BUSINESS REVIEW

The Company is an integrated municipal water service provider in Sichuan Province, principally engaged in two segmental businesses; tap water supply and wastewater treatment. 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. The Company mainly engages business in Luzhou area, Weiyuan area in Neijiang City, Leshan area, part of Liangshan Prefecture, Qingbaijiang area in Chengdu City, etc.

As at the end of the Reporting Period, we operated ten tap water plants and nine city wastewater treatment plants with a total treatment capacity of approximately 792,500 tons per day. We also operated several wastewater treatment facilities in urban and rural areas.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.3.1 Tap Water Project

As at the end of the Reporting Period, the Group owned ten tap water plants with a daily supply capacity of approximately 491,500 tons representing an increase of one tap water plants and a decrease of approximately 7,000 tons of daily water supply capacity in aggregate as compared with that as at 31 December 2018. The average utilisation rate of tap water plants (excluding Xuyong Nantan Water Plant (which was newly acquired)) stood at 88.64%. Such decrease was mainly because of the decrease in the total daily water supply capacity of Qiancao Water Plant of the Group.

During the Reporting Period, our total sales of water amounted to approximately 132.9 million tons, representing an increase of 19.5% as compared with approximately 111.2 million tons for the year ended 31 December 2018. The increase was mainly due to the extended water supply areas in cities and the acquisition of Weiyuan Qingxi Water.

### 5.3.2 Wastewater Treatment Project

As at the end of the Reporting Period, the Company owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 301,000 tons in aggregate and the average utilisation rate of wastewater treatment plants stood at 92.07%.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 104.5 million tons, representing an increase of 19.7% as compared with the total actual wastewater treatment capacity of approximately 87.3 million tons for the year ended 31 December 2018. Our total capacity of urban wastewater treatment with charges amounted to approximately 126.3 million tons (including 1.5 million tons from entrusted operation and 15.7 million tons from emergency projects), representing an increase of 23.3% as compared with approximately 102.4 million tons for the year ended 31 December 2018, which was mainly attributable to the newly added entrusted operation and emergency projects at Lingang Industrial Park, Hejiang, and the increase in wastewater treatment upon stable operation of Ya'erdang capacity expansion project.

During the Reporting Period, we owned 67 wastewater treatment facilities in urban and rural areas of Jiangyang district, Longma district, Naxi district, Gulin county that have been put into operation successively, with a total daily treatment capacity of about 25,800 tons.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 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 69.7% from approximately RMB1,218.2 million for the year ended 31 December 2018 to approximately RMB2,067.1 million during the Reporting Period. The increased revenue was mainly from infrastructure construction and upgrade and increase in tap water sales and treatment volume of charged wastewater.

##### 5.4.1.1.1 Tap water supply

###### Sales of tap water

Revenue of the Group generated from sales of tap water increased by 34.8% from approximately RMB235.6 million for the year ended 31 December 2018 to approximately RMB317.5 million for the Reporting Period. The increase was primarily due to a growth in the sales volume of tap water from approximately 111.2 million tons for the year ended 31 December 2018 to approximately 132.9 million tons during the Reporting Period. Revenue generated from sales of tap water accounted for 19.3% and 15.4% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

###### Installation services

Revenue of the Group generated from installation services increased by 3.0% from approximately RMB283.0 million for the year ended 31 December 2018 to approximately RMB291.4 million during the Reporting Period. The increase was mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation services accounted for 23.2% and 14.1% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure increased by 127.0% from approximately RMB357.1 million for the year ended 31 December 2018 to approximately RMB810.7 million during the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Huangxi Water Plant Project, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project have entered into the construction stage, leading to the increase of the tap water supply infrastructure construction and upgrade projects during the Reporting Period. Such revenue accounted for 29.3% and 39.2% of the total revenue for the years ended 31 December 2018 and 2019, respectively.

#### 5.4.1.1.2 Wastewater treatment

### Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 37.5% from approximately RMB194.1 million for the year ended 31 December 2018 to approximately RMB266.9 million during the Reporting Period. This was primarily due to the increase in treatment volume of charged wastewater as a result of increased wastewater treatment capacity and newly added emergency services needed for entrusted operation during the Reporting Period. The capacity of wastewater treatment with charges also increased as compared with the same period last year. The total treatment volume of charged wastewater was approximately 102.4 million tons and 126.3 million tons for the year ended 31 December 2018 and 2019, respectively. Revenue generated from wastewater treatment operation accounted for 15.9% and 12.9% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 38.5% from approximately RMB40.3 million for the year ended 31 December 2018 to approximately RMB55.8 million during the Reporting Period. The increase was mainly due to the right to charge for wastewater treatment gained from the acquisition of Fanxing Environmental in February 2019. Interest income on receivables under service concession arrangements accounted for 3.3% and 2.7% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

### Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure increased by 200.5% from approximately RMB108.1 million for the year ended 31 December 2018 to approximately RMB324.8 million during the Reporting Period. The primary reason for the increase was that the Fanxing Environmental, which was newly acquired by the Group, was conducting infrastructure construction project and Erdaoxi Project Phase III and Xuyong Project Phase II were under construction. Such revenue accounted for 8.9% and 15.7% of the total revenue for the years ended 31 December 2018 and 2019, respectively.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.2 Cost of Sales and Services*

The Group's cost of sales and services increased by 80.0% from approximately RMB939.8 million for the year ended 31 December 2018 to approximately RMB1,691.7 million during the Reporting Period. This was primarily due to the sharp rise in the cost of infrastructure construction and upgrade.

#### *5.4.1.2.1 Tap water supply*

##### Sales of tap water

The Group's cost of sales and services of tap water increased by 25.3% from approximately RMB208.8 million for the year ended 31 December 2018 to approximately RMB261.6 million during the Reporting Period. This was primarily due to the increase in tap water sales and infrastructure amortization as a result of commencement of operation of water supply pipe networks to meet water supply needs. Cost of sales and services from tap water supply operations accounted for 22.2% and 15.5% of our total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

##### Installation services

The Group's cost of sales and services associated with installation services decreased by 23.9% from approximately RMB123.2 million for the year ended 31 December 2018 to approximately RMB93.8 million for the Reporting Period. This was primarily due to the decrease in the number of costly water meter renovation projects that require "Three supplies and one property" and in raw material consumption thanks to strengthened cost control. Cost of sales and services associated with installation services accounted for 13.1% and 5.5% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on tap water supply infrastructure

The Group's cost of construction and upgrade services on tap water supply infrastructure increased by 127.2% from approximately RMB356.1 million for the year ended 31 December 2018 to approximately RMB809.1 million for the Reporting Period. Such increase was mainly due to the increase in the amount of engineering projects, including Naxi Water Plant, Huangxi Water Plant and Nanjiao Second Water Plant Phase II, and water supply pipeline network installation projects. Such cost accounted for 37.9% and 47.8% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

#### *5.4.1.2.2 Wastewater treatment*

### Operating services

The Group's cost of sales and services from wastewater treatment operating services increased by 41.1% from approximately RMB143.7 million for the year ended 31 December 2018 to RMB202.8 million during the Reporting Period. Such increase was mainly because of a corresponding increase in operating costs resulting from an increase in treatment volume in wastewater and stricter discharge requirements. Cost of sales and services from wastewater treatment operating services accounted for 15.3% and 12.0% of our total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

### Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services from construction and upgrade on wastewater treatment infrastructure increased by 200.4% from approximately RMB108.0 million for the year ended 31 December 2018 to approximately RMB324.4 million during the Reporting Period. Such increase was mainly because the Fanxing Environmental, which was newly acquired by the Group, was conducting infrastructure construction project. In addition, the Group also constructed Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period, which led to an increase in relevant costs. Such cost accounted for 11.5% and 19.2% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.3 Gross Profit and Gross Profit Margin*

As a result of above, our gross profit increased by 34.8% from approximately RMB278.4 million for the year ended 31 December 2018 to approximately RMB375.4 million during the Reporting Period, which was attributable to the increase in water sales and charged wastewater volume. Gross profit margin decreased from 22.9% for the year ended 31 December 2018 to 18.2% during the Reporting Period. This was mainly due to the surge in the proportion of revenue from low-margin infrastructure construction and upgrade.

#### *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 increased by 108.6% from approximately RMB26.8 million for the year ended 31 December 2018 to approximately RMB55.9 million during the Reporting Period. The gross profit margin increased from 11.4% for the year ended 31 December 2018 to 17.6% during the Reporting Period. Such increase was mainly due to the prominent scale effect as a result of an increase in sales, and the strengthened cost control of the Company.

##### Installation services

The gross profit of the Group for installation services increased by 23.7% from approximately RMB159.8 million for the year ended 31 December 2018 to approximately RMB197.6 million during the Reporting Period. The corresponding gross profit margin increased from 56.5% for the year ended 31 December 2018 to 67.8% during the Reporting Period. Such increase was mainly due to the slump in the number of low-margin water meter renovation projects that require “Three supplies and one property”.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure increased from approximately RMB1,036,000 for the year ended 31 December 2018 to approximately RMB1,622,000 during the Reporting Period. Such increase was primarily because the Group entered into the construction of Huangxi Water Plant, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project and pipe network construction project during the Reporting Period. The gross profit margins were 0.3% and 0.2% for the years ended 31 December 2018 and 31 December 2019, respectively.

#### *5.4.1.3.2 Wastewater treatment*

### Operating service

The gross profit of the Group for wastewater treatment operating services increased by 27.4% from approximately RMB50.3 million for the year ended 31 December 2018 to approximately RMB64.1 million during the Reporting Period. The corresponding gross profit margin decreased from 25.9% for the year ended 31 December 2018 to 24.0% during the Reporting Period. Such decrease was mainly due to the rising cost of wastewater treatment resulting from stricter environmental protection requirements.

### Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure increased from approximately RMB116,000 for the year ended 31 December 2018 to approximately RMB389,000 during the Reporting Period. The increase was mainly because newly acquired Fanxing Environmental was building wastewater treatment infrastructure in rural areas. In addition, the Group also constructed Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period. The gross profit margin for the construction of wastewater treatment infrastructure for both years ended 31 December 2018 and 2019 was 0.1%.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.4 Other Income, Expenses, Gains and Losses, Net and Impairment Losses under Expected Credit Loss Model, Net of Reversal*

The Group's other income, expenses, gains and losses, net and impairment losses under expected credit loss model, net of reversal increased from approximately RMB28.5 million for the year ended 31 December 2018 to approximately RMB35.5 million during the Reporting Period. The increase was mainly because the balance of the Group's listed funds raised from the initial global offering (in Hong Kong dollars) had decreased and there were the changes of exchange rates, resulting in change from the exchange loss was approximately RMB9.7 million in 2018 to the exchange gain was approximately RMB192,000 during the Reporting Period.

### *5.4.1.5 Distribution and Selling Expenses*

The Group's distribution and selling expenses increased by 36.8% from approximately RMB13.3 million for the year ended 31 December 2018 to approximately RMB18.2 million during the Reporting Period. The increase was primarily due to the increase in staff costs resulting from the expanded supply area and increased number of staff and the sales costs of Weiyuan Qingxi Water acquired in September 2018.

### *5.4.1.6 Administrative Expenses*

The Group's administrative expenses increased by 21.1% from approximately RMB69.8 million for the year ended 31 December 2018 to RMB84.5 million during the Reporting Period. This was mainly due to the increase in staff cost as a result of expanded supply area and increased number of staff, the rise of administrative expenses of Weiyuan Qingxi Water and Weiyuan Installation Company acquired in September 2018. Additionally, administrative expenses of Fanxing Environmental acquired by the Group in February 2019 also led to an increase in administrative expenses this year.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.7 Finance Costs*

The Group's finance costs increased by 105.4% from approximately RMB37.2 million for the year ended 31 December 2018 to approximately RMB76.4 million during the Reporting Period, which was primarily because of a rise in interest expense incurred from the matters including the increase in borrowings, the issue of corporate bonds and the obtained financing lease payment by the Group during the Reporting Period.

### *5.4.1.8 Income Tax Expense*

The income tax expenses increased from approximately RMB19.4 million for the year ended 31 December 2018 to approximately RMB30.5 million during the Reporting Period. For the years ended 31 December 2018 and 2019, the actual tax rates of the Group were 10.4% and 13.1%, respectively. The increase was primarily because the deferred revenue from installation of water meters subject to deferred tax in 2018 were reversed during the Reporting Period.

### *5.4.1.9 Profit after Tax and Profit after Tax Margin*

As a result of above, profit after tax of the Group increased by 20.5% from approximately RMB167.2 million for the year ended 31 December 2018 to approximately RMB201.5 million during the Reporting Period. The profit margin after tax decreased from 13.7% for the year ended 31 December 2018 to 9.7% during the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

#### *5.4.2.1 Property, Plant and Equipment*

The property, plant and equipment of the Group was approximately RMB39.9 million and RMB56.7 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the increase of non-infrastructures related machines and official equipment. In addition, the Group acquired Fanxing Environmental and established Leshan Xingjia during the Reporting Period, leading to the increase of the machines, official equipment and fixed installation.

#### *5.4.2.2 Intangible Assets*

Intangible assets of the Group were approximately RMB1,947.2 million and RMB2,714.2 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the completion of the construction of the project and upgrade work.

#### *5.4.2.3 Receivables under Service Concession Arrangements*

The receivables under service concession arrangements of the Group were approximately RMB851.0 million and RMB1,169.1 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the acquisition of Fanxing Environmental and the construction of Erdaoxi Phase III and Xuyong Phase II during the Reporting Period, leading to the increase in receivables under service concession arrangements.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.4 Inventories

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) amounted to approximately RMB33.0 million and RMB45.4 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the expansion of the installation business of water meters during the Reporting Period, leading to a larger amount of reserved remote-transmitting water meter and pipe material as at the end of the Reporting Period.

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

	For the year ended 31 December	
	2019	2018
Average inventory turnover days <sup>(1)</sup>	26	23

*Note:*

- (1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services of 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 of 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 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 increased from 23 days for the year ended 31 December 2018 to 26 days during the Reporting Period. The increase was mainly due to a larger amount of reserved material for water meter renovation projects at the end of the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.5 Trade Receivables

Our trade receivables were approximately RMB129.2 million and RMB270.0 million as at 31 December 2018 and 2019, respectively.

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

	For the year ended 31 December	
	2019	2018
Average trade receivables turnover days <sup>(1)</sup>	78	56

*Note:*

- (1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue of 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, installation services in tap water supply operations and wastewater treatment fee in wastewater treatment operations. We believe excluding of revenue from our construction and upgrade services of infrastructure is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 56 days for the year ended 31 December 2018 to 78 days during the Reporting Period. The increase was mainly due to wastewater emergency projects, and the temporary unsettlement of water charge by the Group and People's Government of Jiangyang District, Luzhou City, while we practically strengthened our management policy of recycled trading receivables.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.6 Trade Payables

Our trade payables were approximately RMB43.4 million and RMB54.1 million as at 31 December 2018 and 2019, respectively.

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

	For the year ended 31 December	
	2019	2018
Average trade payables turnover days <sup>(1)</sup>	32	25

*Note:*

- (1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation services and waste water operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days increased from 25 days for the year ended 31 December 2018 to 32 days during the Reporting Period. The increase was mainly because the Group purchased a large quantity of materials of remote-transmitting water meter 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	
	2019	2018
Average trade payables and construction payables turnover days <sup>(1)</sup>	102	101

Note:

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

Our average turnover days of trade and construction payables increased from 101 days for the year ended 31 December 2018 to 102 days during the Reporting Period. The increase was mainly due to the increase in construction payables of various tap water supply projects (including Naxi water plant and Huangxi water plant and Nanjiao second water plant (phase II)) and water treatment projects (including Erdaoxi phase III project and Xuyong phase II project).

### 5.4.2.8 Deferred Income – government grants

Deferred income of the Group was approximately RMB168.7 million and RMB173.8 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the receipt of grants supplied by the government for Erdaoxi phase III project and Changbin Road pipeline project during the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.9 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 and bonds payable, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, FVTOCI reserve, capital reserve, statutory surplus reserves, 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 bank balances and cash of the Group amounted to approximately RMB1,095.9 million (at the end of 2018: approximately RMB547.7 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB1,423.6 million (at the end of 2018: approximately RMB844.4 million), including bank and other borrowings, of which, approximately 61.7% of bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was 48.2% (at the end of 2018: 15.2%).

On 26 April 2019, the Company successfully issued the first tranche of corporate bonds in the principal amount of RMB500 million, at a coupon rate of 5.99% and with a bond maturity of five years. Details of this tranche of corporate bonds are set out on the website of Shanghai Stock Exchange ([http: www.sse.com.cn](http://www.sse.com.cn)).

On 23 September 2019, the Company successfully issued the second tranche of corporate bonds in the principal amount of RMB200 million, at a coupon rate of 5.00% and with a bond maturity of five years. Details of this tranche of corporate bonds are set out on the website of Shanghai Stock Exchange ([http: www.sse.com.cn](http://www.sse.com.cn)).

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5 EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 940 employees (at the end of 2018: 849). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB161.2 million (2018: approximately RMB142.1 million). The remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continue to adjust the new model of salary packing system of the associates of the Company.

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

### 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 a 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. As at the end of the Reporting Period, HK\$395.51 million of the proceeds from the initial public offering had been used by the Group in the manner disclosed in the prospectus of the Company dated 21 March 2017 and approximately HK\$5.29 million of the proceeds had not yet been used.

Please refer to the table below for details:

<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	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	34.79	5.29
<b>Total</b>	<b>400.8</b>	<b>395.51</b>	<b>5.29</b>



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.7 MAJOR ACQUISITIONS, DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 27 February 2019, the Company separately entered into an equity transfer agreement with Luzhou Xingxin Water Environmental Governance Co. Ltd. (瀘州市興新水環境治理有限公司) and Luzhou Tianrun Industrial Development Investment Fund Partnership (Limited Partnership), (瀘州市天潤產業發展投資基金合伙企業(有限合夥)), pursuant to which, the Company agreed to acquire an aggregate of 92.50% equity interest in Fanxing Environmental at a total consideration of RMB117.0 million. Upon completion of such equity transfer, Fanxing Environmental became a non-wholly owned subsidiary of the Company and its results were consolidated into the consolidated financial statements of the Group. Please refer to the announcement issued by the Company on 27 February 2019 for further details.

Save as disclosed above, during the Reporting Period, the Company has no other arrangements for major acquisitions or disposals of subsidiaries, associates and joint ventures.

Save as disclosed in this report, as at the date of this report, the Company did not have any other future plans for major investments or capital assets.

### 5.8 PLEDGES OF THE GROUP'S ASSETS

At the end of the Reporting Period, there were some bank borrowings of the by the Group's charging right for certain tap water supply fees, the Group's charging right for certain wastewater treatment fees and certain land, certain of the Group's buildings and tap water supply plants, certain tap water supply and wastewater treatment infrastructure. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other asset.

### 5.9 FOREIGN EXCHANGE RISKS

During the Reporting Period, the Group carried out business in the PRC and receives revenue and pays its costs/expenses in RMB. At the end of the Reporting Period, the Group has unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognized net foreign exchange gains of approximately RMB192,000 during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.10 CONTINGENT LIABILITIES

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

### 5.11 SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB57.77 million (2018: approximately RMB57.27 million), which mainly represents the Group's equity investment of 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, such equity instruments investments are measured at fair value through other comprehensive income.

### 5.12 EVENTS AFTER THE REPORTING PERIOD

On 2 January 2020, the Company, together with 德昌縣興德投資有限責任公司(Dechang Xingde Investment Co., Ltd.) and 四川康浩建設工程有限公司(Sichuan Kanghao Construction Engineering Co., Ltd.), jointly funded the establishment of 德昌縣興瀘水務有限公司(Dechang Xinglu Water Co., Ltd., "**Dechang Water**") with a registered capital of RMB17,739,000. Dechang Water is primarily engaged in wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.

On 13 December 2019, the Company entered into agreement with 中蓉投建實業有限公司(Zhongrong investment and Construction Industry Co., Ltd.) for the establishment of 成都市青白江興瀘水務有限公司(Chengdu Qingbaijiang Xinglu Water Co., Ltd., "**Qingbaijiang Water**") with a registered capital of RMB34,711,400. Qingbaijiang Water is primarily engaged in wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The contribution payable by the Company was made on 6 January 2020.

On 18 February 2020, the Company, together with 雷波縣金沙江國有資產經營有限公司(Leibo Jinshajiang State-owned Assets Management Co., Ltd.), jointly funded the establishment of 雷波縣興瀘水務有限公司(Leibo Xinglu Water Co., Ltd., "**Leibo Water**") with a registered capital of RMB60,000,000. Leibo Water is primarily engaged in tap water supply and the installation of tap water pipeline and equipment. The Company holds 51% equity interest in Leibo Water which is accounted for as its subsidiary impact of Coronation to the Company.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.13 OTHER

Since the outbreak of novel coronavirus (“**COVID-19**”) in mainland China in early 2020, subsequent quarantine measures and travel restrictions in other countries were adopted by the mainland government. Most of the Group’s business are located in Sichuan Province, the PRC. Due to the mandatory quarantine measures taken by the government, the Group had to stop construction activities from February 2020 to control the spread of the epidemic.

In March 2020, the region where the Company located was identified as a low-risk area. As of the date when these financial statements were approved for issuance, the Company has resumed the overall production.

## CHAPTER VI DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Up to the date of this annual report, the biographical details of the Directors, Supervisors and the senior management of the Company are set out below:

### 6.1 EXECUTIVE DIRECTORS

**Mr. Zhang Qi (張岐先生)**, aged 46, 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 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 27 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 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.

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

**Mr. Liao Xingyue (廖星樾先生)**, aged 38, 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 10 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.

Mr. Liao graduated from Tongji University in Shanghai, the PRC, with a bachelor's degree, a master's 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 55, 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 a director of Xinglu Wastewater Treatment, a director of Xingxu Water, and the chairman of Leshan Xingjia.

Mr. Wang has more than 33 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.

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

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.

### 6.2 NON-EXECUTIVE DIRECTORS

**Mr. Chen Bing (陳兵先生)**, aged 49, joined 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), the executive director and general manager of Luzhou Xinglu Financial Leases Co., Ltd.\* (瀘州市興瀘融資租賃有限公司), 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 director of Luzhou City Chengnan Construction Investment Co., Ltd.\* (瀘州市城南建設投資有限公司), Luzhou China Resources Xinglu Gas Co., Ltd.\* (瀘州華潤興瀘燃氣有限公司), and Chuantie (Luzhou) Railway Co., Ltd.\* (川鐵(瀘州)鐵路有限責任公司),

Mr. Chen has over 24 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. He served as a supervisor of South Sichuan Interurban Railway Co., Ltd.\* (川南城際鐵路有限責任公司) from July 2014 to January 2019, as a director of Luzhou Port Bonded Logistics Co., Ltd.\* (瀘州臨港保稅物流有限公司) from September 2013 to February 2018, as the chairman of the supervisors committee of Sichuan Xuda Railway Limited\* (四川敘大鐵路有限責任公司) from April 2013 to October 2019 and of Longma Xingda Petty Loan Co., Ltd.\* (龍馬興達小額貸款股份有限公司) from December 2011 to September 2019.

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.

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

**Ms. Xu Yan (徐燕女士)**, aged 54, 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.

Ms. Xu has 24 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 43, has served as non-executive Director and a member of audit committee of the Company since September 2017. He also served as the president of Sichuan Jin Yu Car City (Group) Co., Ltd.\* (四川金宇汽車城(集團)股份有限公司).

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 July 2015 to April 2017. He served as assistant president of Beijing Enterprises Water Group and the general manager of the Central Business Region from April 2017 to March 2019. He also served as the executive vice president of Sichuan Jin Yu Car City (Group) Co., Ltd. from March 2019 to May 2019.

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.

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

### 6.3 INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Gu Ming'an (辜明安先生)**, aged 54, has served 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 since 31 March 2017. 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 30 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.



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

**Mr. Lin Bing (林兵先生)**, aged 51, has served as independent non-executive Director, and a member of the strategy committee of the Company since 31 March 2017. 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 28 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.

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組) in May 2016.

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

**Mr. Cheng Hok Kai, Frederick (鄭學啟先生)**, aged 56, 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 concurrently has been serving as an independent non-executive director of CIMC Vehicles (Group) Co., Ltd.\* (中集車輛(集團)股份有限公司) (stock code: 1839. HK) since 26 June 2019.

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. Mr. Cheng joined Sanyuan Health Industry Group Co., Ltd. (stock code: 1889. HK) as an executive director on May 2019, responsible for the group's cannabis diphenol products and gene detection business. Mr. Cheng resigned from the above position on 31 October 2019.

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 2003, 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.

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

### 6.4 SUPERVISORS

**Ms. Qu Mei (屈梅女士)**, aged 51, joined the Group in May 2007 and serves as the chairperson 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 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 18 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. She served as supervisor of Luzhou Xinglu Financing Guarantee Co., Ltd. (瀘州市興瀘融資擔保有限公司) from January 2016 to January 2019.

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.

**Mr. Xu Ke (徐可先生)**, aged 38, 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). He also served as supervisor of Luzhou Laojiao.

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.

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

**Ms. Huang Mei (黃梅女士)**, aged 51, joined the Group in December 1987 and currently serves as an employee representative Supervisor. She concurrently serves as the chairman of the Labour Union of the Company and secretary of discipline committee of the Party Committee of the Company since 2002 and 2016, respectively, as a supervisor of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015, and supervisor of Xinglu Wastewater Treatment since November 2018.

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. She served as the chairman of the Supervisory Committee of Xinglu Wastewater Treatment from September 2014 to November 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 48, joined the Group in September 1989. She has served as an employee representative Supervisor since July 2016 and as the manager of the Party-masses work department since July 2019. 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.

Ms. Xiang has 23 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, the director of the office of the Company from July 2015 to October 2017 and the office director of the Board of the Company since from October 2017 to July 2019.

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

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 57, 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 49, 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 14 years of experience in legal practice. Mr. Xuan started to act as a lawyer in Sichuan Mayflower Law Firm\* (四川五月花律師事務所) from September 2005.

Mr. Xuan graduated from Sichuan Normal University\* (四川師範大學) in Chengdu, the PRC, with a bachelor's degree majoring in science in July 1993 and from Southwestern University of Finance and Economics\* (西南財經大學) in Chengdu, the PRC, with a master's degree in law in June 2012. Mr. Xuan obtained the certificate of legal professional granted by Ministry of Justice P.R.C\* (中華人民共和國司法部) in February 2005.

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

**Mr. Xiong Hua (熊華先生)**, aged 36, 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 11 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 46, 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 22 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 and the chairman of Weiyuan Qingxi Water and Weiyuan Installation Company from September 2018 to November 2019.

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 midlevel 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.

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

### 6.6 SENIOR MANAGEMENT

**Mr. Chen Xuejie (陳學傑先生)**, aged 55, 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\* (瀘州廣播電台) 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. Ouyang Peng (歐陽鵬先生)**, aged 45, 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, material supply management and the legal audit management of the Company. He also serves as an executive director of both Sitong Engineering and Naxi Water concurrently.

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

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 46, 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 SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), mainly responsible for assisting listed companies in professional company secretarial work. Ms. Ng possesses more than 12 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 Corporate Governance in the United Kingdom (formerly known as 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 at the end of the Reporting Period, the Group was the largest tap water supplier in Luzhou Area and Weiyuan Area of Neijiang City. 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 service covering most of Luzhou area and Weiyuan area of Neijiang City and wastewater treatment services covering Luzhou area.

## 7.2 RESULTS

The audited results of the Group for the year ended 31 December 2019 are set out in consolidated statement of profit or loss and other comprehensive income on pages 139 to 140. The financial position of the Group at the end of the Reporting Period is set out in the consolidated statement of financial position on pages 141 to 142. The consolidated cash flows of the Group during the Reporting Period are set out in the consolidated statement of cash flows on pages 144 to 145.

## 7.3 DIVIDEND POLICY AND FINAL DIVIDENDS

The Board approved and adopted the following dividend policy. The dividend policy is targeted at providing a stable and sustainable return to the Shareholders and the Company will consider the following factors, among others, when deciding whether to recommend the payment of dividends and in determining the amount of dividends:

1. the operation conditions and market environment of the Group;
2. the general financial position of the Group;
3. the actual and future operation and liquidity status of the Group;
4. the profit after tax and distributable profits of the Company and the Group;
5. the development plan and expected working capital requirements of the Group;
6. the expectations of the Shareholders and investors of the Company and the industry practice;
7. the continuity and stability of the dividend distribution policy; and
8. any other factors that the Board considers appropriate.

## CHAPTER VII DIRECTORS' REPORT (Continued)

The Company's declaration of dividends is also subject to any restrictions under the Company Law of the People's Republic of China (the "**Company Law**"), the Listing Rules, the Articles of Association and any other applicable laws, rules and regulations, and fully listens to and considers the opinions of the Shareholders, especially the small and medium Shareholders and independent non-executive Directors, pays attention to the reasonable returns of investors and takes account of the sustainable development of the Company. The Board will review the dividend policy from time to time and cannot ensure that dividends will be proposed or declared for any given period.

The Board proposed to distribute final dividends of RMB0.06 per Share (tax inclusive) for the year ended 31 December 2019 (2018: RMB0.06 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Wednesday, 8 July 2020 (the "**Record Date**") (subject to the approval of Shareholders on the annual general meeting to be held on Friday, 12 June 2020), with the total amount being approximately RMB51,583,000. Once approved, the final dividends will be paid on or before Thursday, 30 July 2020.

### 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 and pay 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 on behalf them.

In accordance with the PRC Tax Law, the Company is also required to withhold and pay individual income tax when distributing final dividends to individual shareholders whose names appeared on the H Shares register of members of the Company on behalf them. 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.

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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

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, 13 May 2020 to Friday, 12 June 2020 (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, 13 May 2020. 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, 12 May 2020.

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, 3 July 2020 to Wednesday, 8 July 2020 (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 Wednesday, 8 July 2020. 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, 2 July 2020.

### 7.6 ANNUAL GENERAL MEETING

We will convene the Annual General Meeting on Friday, 12 June 2020.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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 30 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

The Company complies with various national and local environmental protection laws in China, including the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Water Law of the People's Republic of China, the Water Pollution Prevention and Control of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Cleaner Production Promotion Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and Law of The People's Republic of China on Water and Soil Conservation.

These laws and regulations are the those that we must strictly abide by and executed in the course of operation, and have a significant normative effect on our operations and management, otherwise it will have a significant impact on the Company's operations.

The Company has taken relevant measures in its business operations to comply with the regulatory and industry standards of relevant central and local government departments and industry associations. Due to the raise of environmental protection requirements, the Company has increased the capital investment in compliance measures.

During the Reporting Period, the Company did not encounter any claims arising from failure to comply with the relevant permit and environmental requirements. 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 all applicable laws and regulations in the PRC in all material respects, and has also complied with the Listing Rules and the SFO.

### 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 regionwise 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.

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: we will ensure that there are sufficient management, operations, human and financial resources to maintain our sustainable development and improve our competitiveness and profitability. Meanwhile, we will enhance risk awareness, establish an effective risk prevention mechanism, implement dynamic management of the entire financing process, and innovate financing methods to minimize financing costs.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.11.3 Cost Control Risks

In recent years, the standards of energy, labour, raw materials and environmental quality have improved. In particular, according to the requirements of environmental protection, the increase in standard and capacity of wastewater 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; and continue to explore core technologies through automation improvement and promotion of smart water meters for energy conservation and consumption reduction.

### 7.11.4 Safety and Environmental Protection Risks

Due to the defects of our water supply and drainage operation facilities and related engineering construction machinery and equipment, or human negligence, operation errors and other factors, it may lead to casualties, property losses and environmental pollution damage events, which may have a certain adverse impact on the Company's operation.

We will take the following countermeasures: deeply study the changes of laws and regulations and national safety and environmental protection policies, improve the safety and environmental protection system, strengthen the safety and environmental protection training of operating personnel, improve the emergency response capacity of safety and environmental protection accidents, strengthen tracking and supervision, implement responsibilities at all levels, and put an end to potential safety hazards.

During the Reporting Period, there were no safety and environmental protection events.

### 7.11.5 Network Security Risk

If the network and information systems are attacked and causes the interruption of the information system, the network interruptions and the data corruption, changes, leakage, and loss may adversely affect the Company's operations.

We will adopt the following countermeasures: improve the internal management system, improve the operation and maintenance management supervision system; strengthen the comprehensive technical prevention and emergency protection measures; enhance the technical staff's network security risk awareness and compliance operation level.

During the Reporting Period, there were no cybersecurity risk events in the Company's network and information systems.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.11.6 Data Fraud and Theft

With the deepening application of information systems, various information may be scammed and stolen, and the leakage and loss of data may adversely affect the Company's reputation.

We will take the following countermeasures: strengthen business system management and control; improve network system security; strengthen security risk awareness education, and control the safe and compliant use of various business data of the Company through systems, business training and technical protection measures.

During the Reporting Period, the Company did not have any data fraud and theft.

## 7.12 KEY RELATIONSHIPS

### 7.12.1 Employees

At the end of the Reporting Period, the Company had 940 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 staff and provide more comprehensive career training and development plan for all employees. During the Reporting Period, the staff skill rating was carried out and linked to the salary, which fully encouraged employees to upgrade their skills. We will provide new employees with training corresponding to their expected duties.

The details of the employee remuneration are set out in the section headed "Management Discussion and Analysis" on page 31 of this annual report.

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 represents 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 has submitted major claims to us and there are no penalties imposed by the relevant government authorities.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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, Weiyuan County and Leibo County. In wastewater treatment service, our customers are mainly local governments in three districts and four counties in Luzhou, towns in Shizhong District of Leshan, Qingbaijiang District and Dechang County of Chengdu.

The Group adheres to the business philosophy of "Customer Orientation" and maintaining a good relationship with its customers is very important to the long-term development of the Group. Therefore, the Group is committed to providing high quality services to its customers.

During the Reporting Period, the total amount of sales to the five largest customers of the Group was RMB1,336.0 million, accounting for 64.6% of the total amount of revenue for the Reporting Period, and the total amount of sales to the largest customer was RMB785.0 million, accounting for 38.0% of the total amount of revenue for the Reporting Period.

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.

### 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 wastewater treatment, and other equipment maintenance consumables).

In addition to the public service providers, we have developed a centralized procurement policy for our suppliers. According to this policy, the Group needs to bid to different suppliers and select suppliers based on the price, quality and timeliness of their products. All supply contracts are subject to review and approval by the headquarters and are regularly tested by the headquarters to check the quality of the delivered product.

During the Reporting Period, the total amount of procurement from the five largest suppliers of the Group was RMB592.2 million, accounting for 49.3% of the total amount of procurement for the Reporting Period. The purchase from the largest supplier was RMB257.4 million, accounting for 21.4% of the total amount of procurement for the Reporting Period.

Our top five suppliers 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) do not hold any interest in the top five suppliers of the Group.



## 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 RMB1.00 per share, of which, RMB644.77 million for Domestic Shares and RMB214.94 million for H Shares.

### 7.14 BOND ISSUANCE

On 3 December 2018, the Company held the first extraordinary general meeting of 2018 to approve the special resolutions to issue corporate bonds and authorize the Board or its authorized persons to deal with the matters relating to the issue of the Corporate Bonds, and intends to publicly issue corporate bonds to qualified investors. The Company received an approval issued by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2019] No. 272) (證監許可[2019]272號) and dated 28 February 2019 authorizing it to publicly issue corporate bonds with a total face value of no more than RMB700 million. The Company will issue them in installments according to actual conditions. For details, please refer to the announcements issued by the Company on 12 October 2018, 3 December 2018, 28 December 2018 and 7 March 2019 and the circular of the Company dated 19 October 2018.

On 26 April 2019, the Company successfully issued the first tranche of corporate bonds in the principal amount of RMB500 million, at a coupon rate of 5.99% and with a bond maturity of five years, and has been listed on the Shanghai Stock Exchange since 8 May 2019. For details, please refer to the announcements of the Company on 29 April 2019 and 7 May 2019.

On 23 September 2019, the Company successfully issued the second tranche of corporate bonds in the principal amount of RMB200 million, at a coupon rate of 5.00% and with a bond maturity of five years, and has been listed on the Shanghai Stock Exchange since 10 October 2019. For details, please refer to the announcement of the Company on 24 September 2019.

### 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 during 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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 16 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 32 to the consolidated financial statements in this annual report.

### 7.20 DONATIONS

During the Reporting Period, the Group's external donation amounted to RMB1,718,000 (excluding employees' personal donation).

### 7.21 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### 7.21.1 Directors

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:

<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
Mr. Xie Xin	Non-executive Director	September 2017
Ms. Xu Yan	Non-executive Director	December 2015
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

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.21.2 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.

The details of the status of Supervisors of the Company during the Reporting Period and as of the date of this annual report are set out in the section headed "Supervisory Committee's Report" on page 71 of this annual report.

### 7.21.3 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. Ouyang Peng	Chief financial officer	December 2017

### 7.21.4 Changes in the Information of Directors, Supervisors and Chief Executives

During the Reporting Period, the details of the changes in the information of Directors, Supervisors and chief executives of the company are set out in the section headed "Directors, Supervisors and Senior Management" on pages 35 to 47 of this annual report.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.21.5 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 35 to 47 of this annual report.

### 7.21.6 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).

### 7.21.7 Remuneration of Directors and Supervisors

The details of the remuneration of Directors and Supervisors of the Company are set out in the notes 13 to the consolidated financial statements of this annual report.

### 7.21.8 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.21.9 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.

### 7.21.10 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.

### 7.21.11 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.

### 7.21.12 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 to be notified to the Company and Hong Kong Stock Exchange.

## CHAPTER VII DIRECTORS' REPORT (Continued)

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

To the best knowledge of the Company based on the public information and the available books and records 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%	59.51%
	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 <sup>(3)</sup>	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%
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	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%

## 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
Sichuan Sans Venture Capital Co., Ltd. <sup>(4) (7)</sup>	Beneficial owner	H Shares	19,247,000(L)	8.95%	2.24%
Suntront Intelligence (Hong Kong) Co., Ltd. <sup>(5)</sup>	Beneficial owner	H Shares	16,884,000 (L)	7.86%	1.96%
Suntront Tech Co., Ltd. <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Fei Zhanbo (費戰波) <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	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>	Trustee	H Shares	77,787,000(L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	19,247,000(L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%

## CHAPTER VII DIRECTORS' REPORT (Continued)

- (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.
- (3) Beijing Enterprises Water Group Limited is held by Beijing Enterprises Environmental Construction Limited as to 43.76%, 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 100% by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.
- (4) Sichuan Development Holding Co., Ltd has 100% interests in Sichuan Sans Venture Capital Co., Ltd. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd is deemed to be interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.
- (5) Suntront Tech Co., Ltd has 100% interests in Suntront Intelligence (Hong Kong) Co., Ltd. Fei Zhanbo has 35.70% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Fei Zhanbo and Suntront Tech Co., Ltd are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Ltd.
- (6) 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; 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 77,787,000 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 (20-14 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, at least 25% of the total issued share capital of the Company are held in public hands 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 and the use of proceeds from the IPO as at the end of the Reporting Period 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 31 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28 CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

#### 7.28.1 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 within each tap water business supply area, 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 identical 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 approximately RMB3.7 million.

#### 7.28.2 Provision of Installation Services

The Group has been providing installation 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 services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules. The installation 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 identical 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.

On 29 April 2019, the Company entered into the construction service agreement with Luzhou Xinglu Jutai Real Estate Co., Ltd.\* (瀘州興瀘居泰房地產有限公司) ("**Xinglu Jutai**"), pursuant to which, the Company agreed to provide water supply pipelines construction and installation services to Xinglu Jutai until 31 December 2019, with an annual cap of RMB6.374 million. As Xinglu Jutai is a 30% controlled company (as defined in the Listing Rules) of Xinglu Investment, the controlling shareholder of the Company, Xinglu Jutai is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Jutai constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

On 19 June 2019, the Company entered into the construction service agreement with Lingang Investment Company\* (臨港投資公司) ("**Lingang Investment**"), pursuant to which, the Company agreed to provide water supply pipelines construction and installation services to Lingang Investment until 31 December 2019, with an annual cap of RMB33.42 million. As Lingang Investment is a 66% controlled company (as defined in the Listing Rules) of Xinglu Investment, the controlling shareholder of the Company, Lingang Investment is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Lingang Investment constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount of income from installation services and water quality testing received by the Group was RMB16.74 million.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28.3 Procurement services

On 25 July 2019, the Company entered into the procurement agreement with Luzhou Lingang Siyuan Concrete Co., Ltd.\* (瀘州臨港思源混凝土有限公司) ("**Lingang Siyuan**"), pursuant to which, Lingang Siyuan agrees to sell a number of commercial concrete, pumping and other related services to the second phase project of Nanjiao second water plant of the Company until 31 December 2019, with an annual cap of RMB15 million. As Lingang Investment directly holds about 51% of the equity of Lingang Siyuan, while Lingang Investment is a 66% controlled company (as defined in the Listing Rules) of Xinglu Investment, the controlling shareholder of the Company, Lingang Siyuan is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Lingang Siyuan constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

### 7.28.4 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 fully exempt from the shareholders' approval, annual review and all disclosure 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.

### 7.28.5 Property Management

On 31 December 2017, the Company, Nanjiao Water and Luzhou Xinglu Property Management Co., Ltd.\* (瀘州興瀘物業管理有限公司) ("**Xinglu Property Management**") entered into a Property Management Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of the new and old Nanjiao Supply Plant and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019 and with an annual cap of approximately RMB0.2 million. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the controlling shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. However, pursuant to Rule 14A.76(1) of the Listing Rules, all applicable percentage ratios under the transaction are less than 0.1%, and therefore the Company is fully exempt from shareholders' approval, annual review and all disclosure requirements, and the Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

## CHAPTER VII DIRECTORS' REPORT (Continued)

On 31 December 2017, Beijiao Water and Xinglu Property Management entered into a Property Management Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of Beijiao Supply Plant and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019 and with an annual cap of approximately RMB0.2 million. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the controlling shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. However, pursuant to Rule 14A.76(1) of the Listing Rules, all applicable percentage ratios under the transaction are less than 0.1%, and therefore the Company is fully exempt from shareholders' approval, annual review and all disclosure requirements, and the Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

On 15 June 2018, Xinglu Wastewater Treatment and Xinglu Property Management entered into a property management contract, pursuant to which Xinglu Property Management agreed to provide property management services to the Group, with the term from the date of signing the contract to 31 May 2020 and with the annual caps of RMB3.5 million, RMB5 million and RMB2 million for the two years ended 31 December 2019 and for the five months ending 31 May 2020, respectively. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the Controlling Shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

### 7.28.6 Provision of Construction Services

On 16 January 2019, Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into a construction contract with Sichuan Mingyu Construction Engineering Co., Ltd.\* (四川名禹建築工程有限公司) ("**Sichuan Mingyu**"), pursuant to which, Sichuan Mingyu agreed to provide construction services to Xinglu Wastewater Treatment for the Yudai River sewage interception pipe improvement project for a term of one year with the consideration cap of RMB7.2 million. As Sichuan Mingyu is indirectly held as to 70% by Xinglu Investment, the Controlling Shareholder, Sichuan Mingyu is considered a connected person of the Company under Chapter 14A of the Listing Rules and therefore the transaction between the Group and Sichuan Mingyu is a connected transaction under the Listing Rules. The Company has complied with relevant requirements under Chapter 14A of the Listing Rules.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28.7 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; and
- (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.

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.

## 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 Controlling Shareholder has confirmed in writing to the Company that it has fully complied with the non-competitive commitments during the Reporting Period.

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 of the Group.

The Company had adopted the Corporate Governance Code, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

According to code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of association of the Company, the terms of Directors (including non-executive Director and independent Director) are three years, but extendible by election. The term of the first session of the Board, the board of Supervisors and the senior management has expired in December 2018. As (among others) part of the Directors were required to be nominated by the Shareholders, while the nomination system has not been completed and some of the Director candidates are still under consideration, the Company was unable to complete the transition before the end of the first session. Before the completion of transition, the existing Directors, the supervisors and senior management of the Company will continue to perform their duties.

During the Reporting Period, save for code provision A.4.2, the Company has been complied with all code provisions under the Corporate Governance Code.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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.

### 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 Company (the “**Audit Committee**”) consists of two independent non-executive Directors, namely Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an, and a 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. The terms of reference of the Audit Committee are available for inspection on the Company's website and the website of the Hong Kong Stock Exchange. The Audit Committee has reviewed the consolidated financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

### 7.34 EVENTS AFTER THE REPORTING PERIOD

Details of the events after the Reporting Period of the Group are set out in paragraph 5.12 of Management Discussion and Analysis on page 33 of this annual report.

### 7.35 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 2019. The Company's consolidated financial statements for the year ended 31 December 2019 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  
27 March 2020

## 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 with 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 supervise over the general meeting and the Board's decision-making process and the compliance, understand directly and indirectly the operation status of the Company, and gave their opinions and proposals whenever appropriate, so as to promote the healthy development of the Company and 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	1/2	50%
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 Operation

During the Reporting Period, the Supervisory Committee convened the meetings of Supervisory Committee to consider and approve the annual report for the year ended 31 December 2018, interim report and results announcement for the six months ended 30 June 2019 and other proposals, as so to conduct supervision over operating activities.

### 8.2.4 Supervision Over Financial Operation

During the Reporting Period, 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

During the Reporting Period, the Supervisory Committee paid attention to the Company's legal operation, reviewed the Company's risk management, internal control system construction and connected transactions, and focused on the diligence and duties of the Company's Directors and senior management personnel through meetings, talks and review of materials to prevent behavior that could cause damage to the interest of company.

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

### 8.2.6 Strengthen the Internal Governance of the Board of Supervisors

During the Reporting Period, the Supervisory Committee further perfected the Rules of Procedures for the Supervisory Committee (《監事會議事規則》) to better play the supervisory role of the Supervisory Committee and improve its performance.

## 8.3 BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS OF THE COMPANY IN 2019

### 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 2019 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 of the PRC and the Articles of Association, and that the resolutions made were valid and effective. It effectively supervised over the implementation of various resolutions by the Board to ensure the execution of the resolutions; 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. During the Reporting Period, the operation team of the Company, under the brilliant leadership of the Board, focused on the operating guideline of “transforming work style, enhancing efficiency, anchoring on execution and guaranteeing quality”, deepened the exploration of local sewage business, seized every opportunity to expand the water supply and wastewater treatment market presence in the surrounding areas. Overcoming all the difficulties in its way and forging ahead vigorously, the operation team made remarkable achievements, and led the corporate management to a new level.

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

### 8.4 SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE MATTERS OF THE COMPANY IN 2019

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

In accordance with laws and regulations of the country 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 behaviour 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.

Members of the Board and senior management of the Company performed their duties faithfully and diligently in accordance with laws and regulations of the country 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 2019, 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.

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

### 8.4.3 Evaluation on related-party transactions

Related-party transactions between the Company and related parties are all subject to the approval by regulations and fulfilled their disclosure duties in a timely manner. There was no insider trading and behavior that undermined the interest of the Company and Shareholders during considering and reviewing the related-party transactions of 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 of its opinion that the related-party transactions of the Company were fair, just and open, and the pricing basis is sufficient, 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.

Members of the Supervisory Committee will improve their performance through self-development, firmly implement the Company's strategic policies, perform its duties within the scope granted by laws and regulations of the country and the Articles of Association; actively participate in the discussion and decision-making of the Company's strategic decisions, as well as participate in the supervision and management in its regular operation, strengthen supervision and inspection on directors and executives of the Company. The Supervisory Committee will enhance supervision on investment, related-party transactions and other significant events, and propel the building of modern enterprise operation mechanism. Promote the improvement of corporate governance structure and strive to safeguard the legitimate rights and interests of shareholders and companies.

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

**Qu Mei**

*Chairperson of the Supervisory Committee*

Luzhou, the PRC  
27 March 2020

## 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.

The Company has adopted all the code provisions in the Corporate Governance Code, built and improved the corporate governance structure in accordance with relevant requirements, and established a series of corporate governance systems.

According to the code provisions A.4.2 of the Corporate Governance Code, each director (including directors with a specified term) shall be subject to retirement by rotation, at least once every three years. According to the Articles of Association, the Directors (including non-executive Directors and independent non-executive Directors) shall serve for a term of three years and shall be re-elected upon expiration of their term of office. The term of the first session of the Board, Supervisory Committee and senior management of the Company expired in December 2018. Since the nomination procedures for some Directors who are subject to Shareholders' nomination have not been completed and the successors of some of the Directors are still not determined, the Company failed to complete the re-election work before the expiration of the first session of Board. Before the completion of the re-election, the current Directors and Supervisors and senior management will continue to perform their duties.

Except for the code provision A.4.2, the Company has complied with all the code provisions as set out in the Corporate Governance Code. The Board will review the Company's corporate governance practices and operations from time to time in order to comply with the relevant requirements of the Listing Rules.

### 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 of the Company by the Directors and the 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 Reporting Period.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.3 BOARD OF DIRECTORS

#### Composition of the Board

The Board 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 entered 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).

There are no relationship between the Directors, Supervisors and senior management of the Company, including financial, business, family or other material connections. Details of the Directors during the Reporting Period and as at the date of this annual report are set out in the “Directors’ Report” on page 57 of this annual report.

### 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.

Before the publication of this annual report, the Board reviewed the chapter of corporate governance and the section of corporate governance report, and considered that this part of the annual report meets the relevant requirements of the Listing Rules.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 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 of the Company, 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 annual confirmation of independence from each of independent non-executive Directors 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 Director (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

According to the Articles of Association, Directors shall be elected at the Shareholders' general meeting for a term of three (3) years. At the expiry of a Director's term, the Director may stand for re-election and reappointment for further term. Subject to the compliance of the provisions of the relevant laws and administrative regulations, the general meeting of the Shareholders may dismiss by ordinary resolution any Directors of whom the term of office has not expired (the claim for compensation under any contracts shall however be not affected).

The term of each non-executive Director and independent non-executive Director is the same as that of other Directors. Upon expiration of the term of office, the re-election may be made, but the term of re-election shall not exceed six (6) years.

The procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association. The remuneration committee nominated by the Board carefully considers the qualifications and experience of director candidates and recommends them to the Board for consideration. After the Board passes the nomination resolution in relation to the candidate, it is proposed to the general meeting to elect the relevant candidates for approval. The new Directors and independent non-executive Directors have the same term of office as the other Directors of the Company. When the current Board expires, the other members of the Board will take over the re-election of the Shareholders' meeting, and will not be individually arranged to accept the Shareholders' election at the first general meeting after the appointment.

### 9.10 BOARD DIVERSITY POLICY

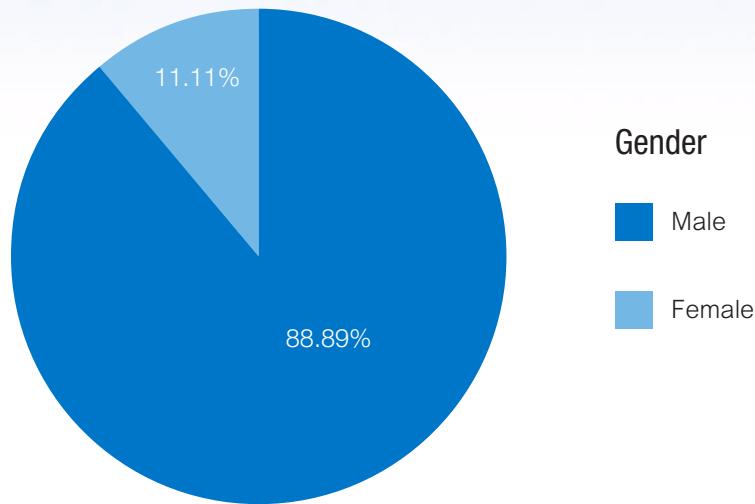
Pursuant to the Rule 13.92 of the Listing Rules, the Board has adopted a board diversity policy. It sets out the ways to achieve and maintain the diversity of the Board in order to optimize the staff structure of the Board. The Company recognises and embraces the benefits of diversity of Board members, 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, knowledge and office term. The decision will ultimately be based on the strengths of the personnel and the contributions that can be made to the Board.



## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

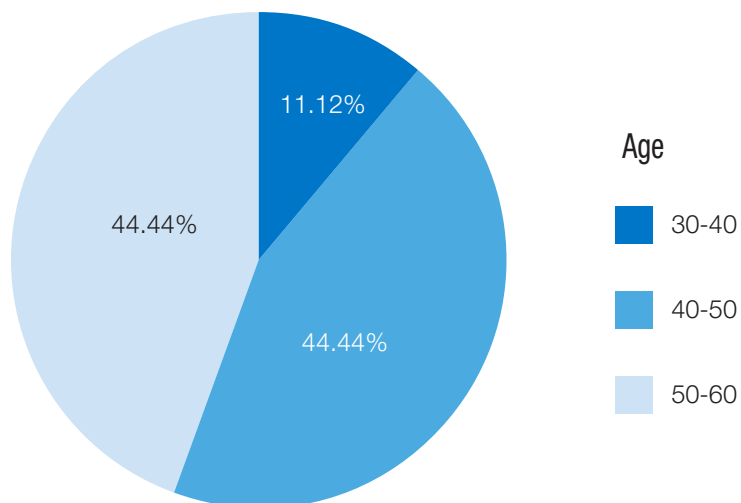
### 9.10.1 Gender

Among the Board members, there are 1 female member and 8 male members, accounting for 11.11% and 88.89% of the total number respectively.



### 9.10.2 Age

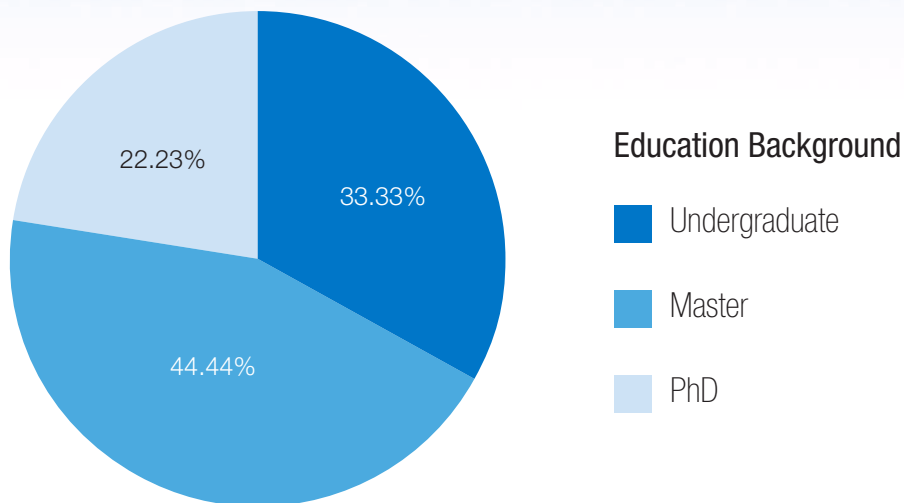
Among the Board members, there are 1 member aged 30–40, 4 members aged 40–50, and 4 members aged 50–60, accounting for 11.12%, 44.44% and 44.44% of the total number respectively.



## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

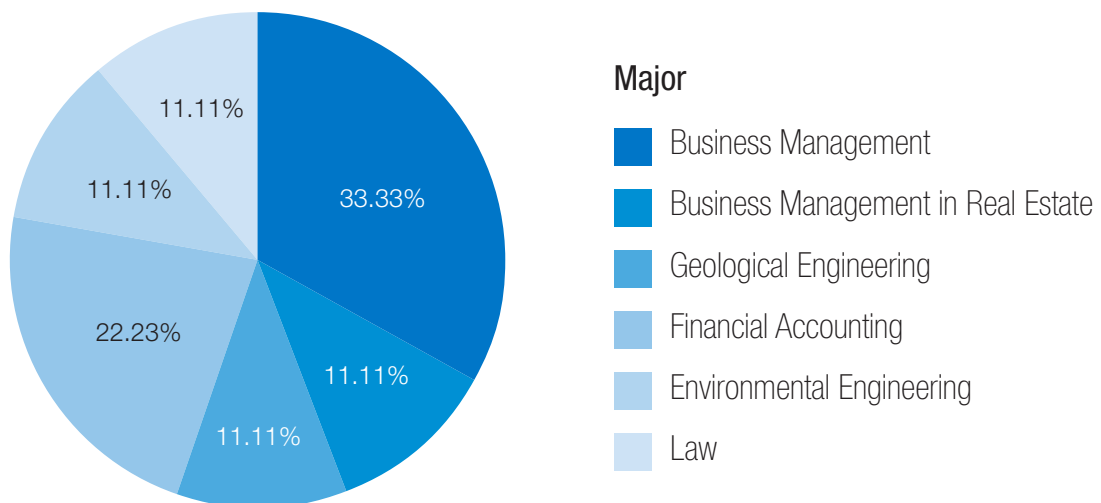
### 9.10.3 Cultural and Educational Background

Among the Board members, there are 3 members holding bachelor's degree, 4 members holding master's degree and 2 members holding doctor's degree, accounting for 33.33%, 44.44% and 22.23% of the total number respectively



### 9.10.4 Major

Among the Board members, there are 3 members majoring in business management, 1 member majoring in business management in real estate, 1 member majoring in geological engineering, 2 members majoring in financial accounting, 1 member majoring in law, and 1 member majoring environmental engineering, accounting for 33.33%, 11.11%, 11.11%, 22.23%, 11.11% and 11.11% of the total number respectively.

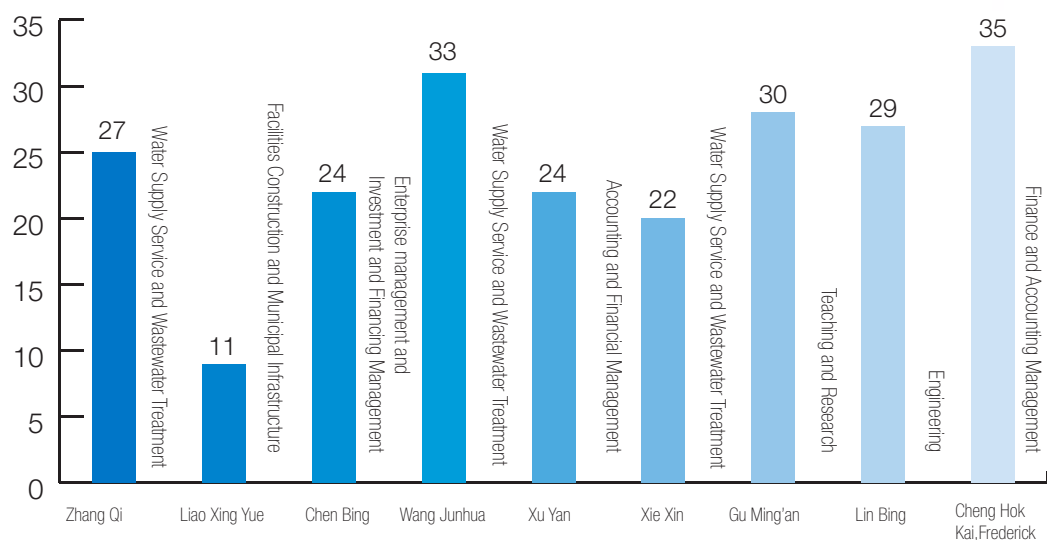


## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.10.5 Management Experience

The Board members have rich experience in wastewater treatment and water supply services, municipal infrastructure planning, investment, construction and management, corporate management, financial management, teaching and research, engineering, business, and finance and accounting management.

Years of management experience



### 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 the 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 7 meetings, and the attendance of Directors are as follow:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Zhang Qi	Executive Director and chairman of the Board	7/7	100%
Mr. Liao Xingyue	Executive Director and general manager	7/7	100%
Mr. Wang Junhua	Executive Director and deputy general manager	7/7	100%
Mr. Chen Bing	Non-executive Director	7/7	100%
Ms. Xu Yan	Non-executive Director	7/7	100%
Mr. Xie Xin	Non-executive Director	7/7	100%
Mr. Gu Ming'an	Independent non-executive Director	7/7	100%
Mr. Lin Bing	Independent non-executive Director	6/7	85.7%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	7/7	100%

During the Reporting Period, 1 general meeting was held, and the attendance of Directors are as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Zhang Qi	Executive Director and chairman of the Board	1/1	100%
Mr. Liao Xingyue	Executive Director and general manager	1/1	100%
Mr. Wang Junhua	Executive Director and deputy general manager	1/1	100%
Mr. Chen Bing	Non-executive Director	1/1	100%
Ms. Xu Yan	Non-executive Director	1/1	100%
Mr. Xie Xin	Non-executive Director	1/1	100%
Mr. Gu Ming'an	Independent non-executive Director	1/1	100%
Mr. Lin Bing	Independent non-executive Director	1/1	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	1/1	100%

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 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 arranged for the Directors, Supervisors and relevant senior management to attend the lecture on “Discloseable Transaction” by the overseas lawyers of the Company, and arranged for the partial Directors, Supervisors to attend the lectures hosted by the Hong Kong Institute of Chartered Secretaries, thereby enhancing its management’s understanding on the Listing Rules. All Directors including 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, the Nomination and Remuneration Committee and the Audit Committee.

#### 9.15.1 Strategy Committee

The strategy committee of the Company (the “**Strategy Committee**”) consists of a non-executive Director Mr. Chen Bing, an executive Director Mr. Zhang Qi and an independent non-executive Director Mr. Lin Bing, with Mr. Chen Bing serving as the chairperson of the Strategy Committee. The primary responsibilities of Strategy Committee are to formulate the operation goals and long-term development strategies of the Company, make proposals on major events and supervise the implementation of annual operating plans and proposals. The terms of reference of the Strategy Committee are available for inspection on the Company’s website and the website of the Hong Kong Stock Exchange.

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.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
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	Executive Director and deputy general manager	0/1	0%

### 9.15.2 Nomination and Remuneration Committee

The nomination and remuneration committee of the Company (the “**Nomination and Remuneration Committee**”) consists of two independent non-executive Directors, namely Mr. Gu Ming’an and Mr. Cheng Hok Kai, Frederick, and an executive Director Mr. Zhang Qi, with Mr. Gu Ming’an serving as the chairperson of the committee. The primary responsibilities of the Nomination and Remuneration Committee are to make recommendations to the Board on the appointment and removal of the directors and senior management of the Company, establish and review the policy and structure of the remuneration for the directors and senior management of the Company and make recommendations on employee benefit arrangement. The terms of reference of the Nomination and Remuneration Committee are available for inspection on the Company’s website and the website of the Hong Kong Stock Exchange.

During the Reporting Period, the Nomination and Remuneration Committee held one meeting, considering and approving the resolution in relation to the independence of independent non-executive Directors and discussing about resolutions in relation to remuneration policies for Directors, Supervisors and senior management and the structure of the Board, remuneration management policy and the optimization plan.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

Attendance of members of the Nomination and Remuneration 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	1/1	100%
Mr. Zhang Qi	Executive Director and chairman of the Board	1/1	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	1/1	100%

### 9.15.3 Audit Committee

The Audit Committee consists of an independent non-executive Director Mr. Cheng Hok Kai, Frederick, and an independent non-executive Director Mr. Gu Ming'an and a 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 3 meetings, in which, the Auditor's Report 2018, the Interim Review Plan for 2019 and the Review Report, the Audit Work Plan for 2019 were heard; and the Auditor's Report, Annual Results, the Annual Report for 2018, Auditor's Interim Report for 2019, the Interim Consolidated Financial Statements, the Interim Results announcement and the Interim Report, the Company's Risk Management and the Internal Control Report were considered and adopted, concerns about possible improprieties in financial reporting, internal control or other matters were raised, and the audit work during the Reporting Period were arranged.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	3/3	100%
Mr. Gu Ming'an	Independent non-executive Director	3/3	100%
Mr. Xie Xin	Non-executive Director	3/3	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 13 to the consolidated financial statements.

In accordance with 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>
600–700	1
500–600	2
400–500	0
Below 400	0



## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 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 2019.

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.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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, the PRC
Telephone number:	+868303194768
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 believes that it is its responsibility to develop, maintain and evaluate a sound and effective risk management and internal control system. The Group has established an enterprise risk management structure to effectively implement risk management and internal control.

The Company's risk management and internal control systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and may only make reasonable, but not absolute assurances that there will be no material misstatement or losses.

Effective risk management exists at all levels of the Group. The Group's risk management structure includes the Board, the audit committee, the management, the internal audit department and employees. The Board is responsible for the risk management and internal control systems and is responsible for maintaining the effectiveness of these systems to protect Shareholders' investments and the Company's assets.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

The Board also reviews the effectiveness of the Company's finance, compliance, risk management and internal controls through the audit committee, including the adequacy of the Company's resources and the staff qualifications and experience in the accounting and financial reporting functions, and the training courses accepted by staff and the budget.

Employees in different business units shall identify and manage risks in their daily operations, while management is responsible for identifying and assessing risks and formulating appropriate measures at the policy level.

The internal audit department is the most important department of risk management and internal control, which is guided by problems and risks and implements internal audit supervision, and tracks the implementation of rectification of problems found in audits.

Risk management procedures include defining risk coverage, identifying risks, assessing identified risks, developing relevant measures to mitigate risks, reviewing implementation and changes, and continually improving. The Company also establishes internal and third-party inspection procedures using the quality management system to identify, assess and manage significant risks through annual review of processes, systems implementation and staffing in the Company's operations, finance and production processes and review the effectiveness of risk management and internal control systems through third-party inspections to effectively control the risks within the effective range.

The Board conducts a review on the effectiveness of the Company's risk management and internal control systems at least once annually. The internal audit department has conducted an independent review of the Company's 2019 annual risk management and internal control systems to assess its effectiveness. The report of the internal control review has been submitted to the Audit Committee for confirmation.

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 that it will keep relevant information strictly confidential before fully disclosing such information to the public.

During the Reporting Period, the Board has reviewed and considered that the Company's risk management and internal control systems are effective and sufficient.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 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 132 to 138 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	2,080
Interim financial review services	500
Other services	0
<b>Total charges</b>	<b>2,580</b>

### 9.22 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As at the Reporting Period, the Company did not make any amendments to the Articles of Association.

### 9.23 TRAINING OF 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 the Company. Ms. Ng is the assistant vice president of SWCS Corporate Service Group (Hong Kong) 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. During the Reporting Period, the Company has already arranged relevant professional training for Mr. Chen Yongzhong 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 ESG REPORT

### Organizational Scope:

This report covers Luzhou Xinglu Water (Group) Co., Ltd. and its subsidiaries (the “**Company**” or “**Xinglu Water**”, collectively referred to as the “**Group**”). To facilitate ease of presentation, the terms “**the Company**” and “**we**” in this report refer to the Group.

### Reporting Period:

This report is an annual report covering the period from January 1, 2019 to December 31, 2019. Part of the content may exceed the above period due to elaboration.

### Preparation Basis:

This report is prepared by the Company pursuant to the Environmental, Social and Governance (ESG) Reporting Guide in Appendix 27 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to the Sustainability Reporting Standards issued by the Global Reporting Initiative (GRI Standards).

### Data in the Report:

The currency amounts in the report shall be denominated in RMB, unless otherwise specified.

### Form of Issue:

The report is issued in the online version and written in Traditional Chinese and English. The online version is available at the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.lzss.com](http://www.lzss.com)).

### ABOUT US

#### ESG Management

The Company deeply knows the healthy development of the Company and the good performance of environmental, social and governance are closely connected. We pay close attention to the performance of social responsibility and sustainable development of the Company while improving the steady and strong financial performance. The Company promoted the inclusion of social responsibilities in operations of the Company by establishing the social responsibility management system with the Board as the core and actively responding to and meeting the demands of the stakeholders, and other measures.

- *ESG Governance Structure*

The Board of the Company paid great attention to the ESG issues of the Company, and was responsible for the ESG strategy and reporting, including evaluating and determining ESG risks faced by the Company, and ensured that the effective ESG risk management and internal control systems of the Company were in place, and regularly reviewed the performance of the Company, approving materials disclosed in the ESG report. This report is also reviewed and issued by the Board.

The Company established an ESG working group to determine the fulfillment of duties for ESG management and objectives, and appointed full-time personnel for communication about matters concerning ESG, data collection and preparation of the report, reporting to the executive committee periodically, promoting ESG-related works and incorporating ESG-related works into daily operation of the Company.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *ESG Reporting Principle*

**Materiality:** Materiality of the ESG issues of the Company is determined by the Board. This report discloses the process of stakeholder communication and identification of material issues, as well as the materiality matrix.

**Quantitative:** The statistical standards, methods, assumptions and/or calculation tools for quantitative key performance indicators in this report, as well as the sources of conversion factors, are explained in the definitions of the report.

**Balance:** This report provides an unbiased presentation of the Company's performance during the Reporting Period. It avoids selections, omissions, or presentation formats that may improperly influence the decision or judgment by the report readers.

**Consistency:** The statistical methods used to disclose the data in this report are consistent.

- *Stakeholders Communication*

The Company believes that keeping effective communication with the stakeholders is crucial to promote the investor relation and deepen the understanding of the performance and strategy of the Company. The Company also understands the importance of keeping the transparency of data of the Company and disclosure data of the Company at due course, which enable shareholders and investors to make the best investment decision.

The Company kept the communication with stakeholders (including shareholders, customers, partners, employees, community, etc.) during the year, and listened to the demands and appeals of the stakeholders and made responses to the opinions of the stakeholders in a timely manner through diversified channels, including the general meeting. Collating and preparing stakeholders communication form from the perspective of sustainable development, the Company laid a foundation for identification of material issues of the Company.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Stakeholders	Topics	Channels of Communication	Measures of Responses
Shareholders and investors	<ul style="list-style-type: none"> <li>• Continue to return value</li> <li>• Corporate governance and risk management</li> <li>• Exercise the right to know and right to make decision</li> <li>• ESG responsibility concept</li> <li>• ESG responsibility governance structure</li> <li>• The Board statement of taking part in the responsibility management</li> </ul>	<ul style="list-style-type: none"> <li>• General meeting</li> <li>• Periodic disclosure and investor communication meetings</li> <li>• Press conference on performance</li> <li>• Telephone conference</li> </ul>	<ul style="list-style-type: none"> <li>• Stable operation</li> <li>• Timely and effective information disclosure</li> <li>• Investment management</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Compliant operation</li> <li>• Pay taxes according to the laws</li> <li>• Anti-corruption management</li> <li>• Energy saving and cost reduction</li> <li>• Support economic development</li> </ul>	<ul style="list-style-type: none"> <li>• Daily communication</li> <li>• Information bulletin</li> <li>• Site visit</li> <li>• Government and enterprise cooperation</li> <li>• Government review</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance management</li> <li>• Observe laws and disciplines</li> <li>• Pay taxes according to the laws</li> <li>• Scientific and technological innovation</li> </ul>
Customer	<ul style="list-style-type: none"> <li>• Product quality and service</li> <li>• Protection of consumers' rights and interests</li> <li>• Customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Daily service and communication</li> <li>• Portals, WeChat official account, etc.</li> <li>• Customer service hotline</li> <li>• Customer forum</li> <li>• Satisfaction investigation</li> </ul>	<ul style="list-style-type: none"> <li>• Quality control</li> <li>• Technological innovations</li> </ul>



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

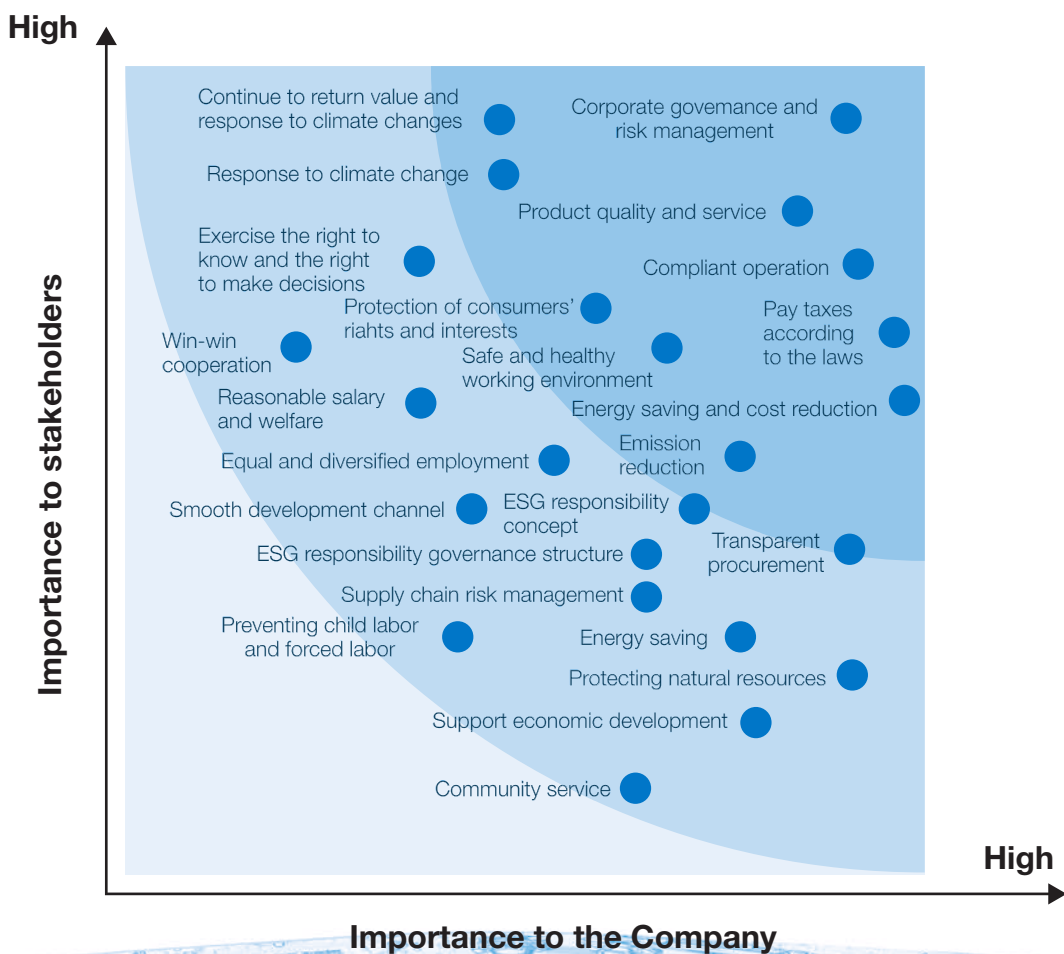
Stakeholders	Topics	Channels of Communication	Measures of Responses
Employees	<ul style="list-style-type: none"> <li>• Equal and diversified employment</li> <li>• Reasonable salary and welfare</li> <li>• Smooth development channel</li> <li>• Safe and healthy working environment</li> <li>• Preventing child labor and forced labor</li> <li>• Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Employment contract</li> <li>• Employee activity</li> <li>• Employee representative congress</li> <li>• Mails, websites, and other communication platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Equal employment</li> <li>• Diversified recruitment</li> <li>• Promotion channel</li> <li>• Training System</li> <li>• Occupational health management</li> <li>• Caring activities for employees</li> </ul>
Suppliers and partners	<ul style="list-style-type: none"> <li>• Transparent procurement</li> <li>• Win-win cooperation</li> <li>• Keeping promises</li> <li>• Supply chain risk management</li> <li>• Green procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Open tendering</li> <li>• Project cooperation</li> <li>• Partner conference</li> <li>• Visit suppliers</li> <li>• Online service platform</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain responsibility management</li> <li>• Sunshine procurement</li> <li>• Green procurement</li> </ul>
Community	<ul style="list-style-type: none"> <li>• Community public benefit</li> <li>• Precise poverty alleviation</li> <li>• Voluntary activities</li> </ul>	<ul style="list-style-type: none"> <li>• Public benefit activity</li> <li>• Community service</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteer services</li> <li>• Public charity activities</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Emission reduction</li> <li>• Energy saving</li> <li>• Protecting natural resources</li> <li>• Environmental compliance</li> <li>• Establishing environmental protection goals</li> <li>• Response to climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental impact assessment</li> <li>• Environmental information disclosure</li> <li>• Public investigation on project and environmental impact</li> <li>• Public benefit activity for environmental protection</li> <li>• Communication with environmental protection organization</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing environment management system</li> <li>• Emissions management</li> <li>• Efficient use of resources</li> <li>• Minimizing environmental impact</li> </ul>

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Identification of Material Issues*

With respect to issues concerning the environmental, social, and governance, the Company, in accordance with Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Listing Rules and the Articles of Association of the Company, considering the materiality of issues for both stakeholders and the Company itself, evaluated and screened material ESG issues through questionnaires, interview and communication and formed materiality matrix under the lead of the ESG working group as the focus of ESG and the basis of disclosure.

During the Reporting Period, the Company received 168 effective questionnaires in total. The results from communication and investigation with the government and regulators, investors/shareholders, employees, customers, suppliers, partners, communities and the public, non-governmental organizations, media and experts formed the basis of the stakeholders’ focus, and the results from investigation on the Board, executives and other management personnel were used to determine the material issues to the Company. The ESG materiality matrix was formed through evaluation, identification and ranking of the issues.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### ANTI-CORRUPTION

The Company strictly complied with relevant national laws and regulations about anti-corruption and anti-bribery such as the Company Law of the People's Republic of China and the Anti-Money Laundering Law of the People's Republic of China, and formulated a number of regulations, such as the Implementation Measures for Preventing Illegal Works, the Leader and Cadres Honest Conversion System, the Management Measures for Engineering Project Supervision, the Management Measures for Bidding Supervision of Xinglu Water, the Management Measures for Bidding for Engineering Project, the Management Measures for Construction Cost Audit, the Management Measures for Construction Project, the Management Provisions for Materials Procurement, the Management Measures for Materials Procurement Bidding, the Interim Measures for Decision Making for Major Events, the Interim Measures for Decision Making for Arrangement of Major Events, the Interim Measures for Decision Making for Important Personnel Appointment and Removal, and the Interim Measures for Management of Use of Large Sum of Money and other systems, in order to strengthen the oversight the production, operation and management activities of the Company. During the Reporting Period, the Company revised and improved the Management Measures for Discipline Supervision and Investigation to further clarify the requirements for honesty and compliance management.

The Company had taken various measures to implement anti-corruption management to ensure efficient and orderly operation of the Company:

- |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Anti-corruption management                | <ul style="list-style-type: none"><li>– Set up the disciplinary inspection committee and set up the disciplinary supervision office under the political department;</li><li>– Carry out social evaluation on the construction of party conduct and clean and honest administration and strengthen the awareness of honesty of party members and leading officials of the Company;</li><li>– Organize collective honest conversation with the middle management and supervisors prior to appointment;</li><li>– Organize employees on important posts to enter into undertaking of honesty.</li></ul> |
| Establish complaint and reporting channel | <ul style="list-style-type: none"><li>– Set up a hotline and a mailbox for reporting and encourage the public to strengthen supervision.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Carry out anti-corruption training        | <ul style="list-style-type: none"><li>– Hold the training and learning meeting of the general party branch every month to study and discuss the laws and regulations on honesty and relevant typical cases;</li><li>– Implement warning education on honesty by watching warning education films, warning stories of typical cases in violation of disciplines and laws by cadres under provincial administration, as well as warning education stories of party conduct and clean government.</li></ul>                                                                                             |
| Anti-corruption publicity                 | <ul style="list-style-type: none"><li>– Establish the “three-early and three-card” system, issuing honesty reminder card, sending honesty message to leaders and management of the Company, and sending honesty message to all personnel of the Company through WeChat.</li></ul>                                                                                                                                                                                                                                                                                                                    |

The Company had been involved in no cases involving violation of laws and regulations due to corruption, commercial bribery, extortion, fraud or money laundering during the Reporting Period.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 1. Standard Based and Best Service

As a water service company, the Company regards “Highest Standard and Best Initiative” as the core of the quality concept of the Company, adheres to strict control of product and service quality, strives to improve product quality, and provides high-quality, safe and secure tap water to serve the public and continuously improve wastewater treatment capacity to truly implement “Innovation and Excellence, Harmony between Human and Water”.

#### 1.1 Water Supply

With the enterprise mission of “Fulfilling Responsibility, Creating Values, and Serving the Masses”, the Company devotes to provide high quality and safe tap water for urban development and citizens. The Company strictly complied with relevant laws and regulations, such as the Production Safety Law of the People’s Republic of China, the Water Law of the People’s Republic of China, the Law of the People’s Republic of China on Prevention and Control of Water Pollution, the Environmental Protection Law of People’s Republic of China, the Water Quality Standard for Drinking Water Sources, the Sanitary Standard for Drinking Water, the Municipal Water Supply Administrative Regulations in Sichuan Province, the Regulation of City Water Supply Quality Management, and the Measures for the Supervision and Administration of Sanitary Drinking Water, and formulated the Management Measures for Water Quality, the Implementation Measures for Water Quality Testing, the Provisions for Water Quality Testing, the Management Measure for Health Protection, and other relevant management regulations to assure water quality. The Company had passed the ISO 9001 quality management system certification. In 2019, the Company formulated the internal control indicators of water quality and implemented stricter quality inspection standards for the quality of ex-factory water to ensure the safety of water quality.

During the Reporting Period, the total water supply of the Company is 155.4572 million tons. The testing by all levels of the Company had been well executed, with pass rate of 100%.

- *Safe Water Supply*

The Company sourced water from the Yangtze River. To guarantee safe water supply, the Company worked out contingency plans and carried out trainings and exercises for the employees in response to sudden pollution of water quality of the Yangtze River and measured the turbidity, residual chlorine, and PH value of raw water with the on-line measuring equipment during water intake to ensure the water quality safety of raw water.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Clean Water Production*

The Company produced tap water, tested raw water, process water, ex-factory water, and water at end of the pipe network and strengthened the control of the whole process from raw water to ex-factory water and water at end of the pipe network strictly in accordance with the Sanitary Standard for Drinking Water (GB5749-2006) and other relevant regulations, to ensure that the quality of drinking water reached the standard. We implement a three-level testing system for water quality. On the first level, the main water quality indicators are tested by the production enterprises under our control. The on-line water quality equipment monitors and records the turbidity and residual chlorine 24 hours a day and portable water quality monitoring equipment is used for sampling test regularly. On the second level, the Company is responsible for the sampling test. On the third level, Sichuan Province Water Supply and Drainage Water Quality Monitor Station is responsible for the sampling test. The first and second levels comply with the Provisions for Water Quality Testing of the Company, and the third level implements the Sanitary Standard for Drinking Water of China. The water quality safety is assured through the three-level testing system.

- *Stable Water Supply*

In order to further improve the water supply capacity, the Company realized stable water supply by strengthening the water plant construction, inspecting the water supply pipe network, promoting the transformation of one household one meter project, and the automation renovation and innovation. Specific measures include:

- Vigorously carry out the construction of water plants to effectively assure the household water consumption. Such as the construction of Naxi Water Plant project, construction of Huangxi Water Plant (Phase I) project, etc.;
- Strictly inspect municipal pipe network and the safety of valve chamber, strengthen the safety of operation of the pipe network, and effectively control the leakage rate of pipe network. Arrange handling of the problems found in a timely manner, including repairing damaged manhole covers, adding pipeline marking piles, replacing leaking valves, and repairing pipeline, etc., to ensure stable water supply;
- Actively implement the transformation of “one household one meter”. Help reducing the aging of water supply network, improve the quality of water supply service management, solve the contradiction of water price for residents, and achieve the purposes of facilitating the management and saving water resources;
- Strengthen the efforts to innovation, and carry out automation renovation to improve the production efficiency and management level. For example, Beijiao Water rectified the sludge treatment system and continuously promoted the automation transformation of the water plant; Nanjiao Water carried out automation transformation of the water supply pump station.

**Case: People-benefit project of transformation of one household one meter of Luzhou**

The people-benefit project of transformation of one household one meter of Luzhou was officially commenced on October 18, 2019. Total amount spent on this project was expected to be RMB550 million, jointly funded by the government and the Company. Users could enjoy the transformation for free. The transformation project was mainly to transform the general water meter into one household one meter to solve the problem of “allocation of losses” of the general water meter. Intelligent remote transmission water meters were also used, so that citizens could use online payment and other convenient payment methods and check information about water consumption in real time.

According to the operation of the water supply facilities at each point, the Company, in line with the principle of practicing strict economy, transformed the courtyard pipes, common fire main, valves in front of the meter, water meters, water meter boxes, pipes on the external wall at the connection of the settlement meter with the household meter and the intelligent remote transmission water meter system during the transformation. After the transformation, urban water supply enterprises will read household meters, charge water rate based on the readings of household meters, and assume the responsibility for the operation, maintenance and replacement of all the water supply facilities before the household meter.

Construction was commenced successively in 7 residential areas in the main urban area of Luzhou, and the transformation of the first batch of 38 points was commenced. It is expected to complete the transformation of “one household one meter” of 200,800 users of general water meter in main urban area of the city within five years.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *High-quality Service*

To strengthen the service awareness of employees and improve the service level, the Company established such internal systems as the Management Measures for Customer Service Hotline and kept optimizing the details of service in accordance with the Quality, Environment and Occupational Health and Safety Management Manual of the Company to provide good experience to customers with high-quality service and sincere attitude.

Service Process – Organize seminar about one-stop service working process analysis, training on secondary water supply equipment and system, and preaching of the One-stop Service Working Standard and the Specifications for Foreign Service Posts, and engage outside law firms to carry out the training on the Operating and Protecting Rights According to the Law- Legal Knowledge for Enterprise, making the business personnel to better understand their own responsibilities and work processes and improving their ability so as to accomplish their tasks with ease.

Customer Communication – The Company has set up such channels for customers feedback as the mayor’s hotline, 24-hour hotline, on-line business hall, WeChat official account and government affairs center and appointed special personnel for the whole process from receiving complaints of the customers to calling back the customers to form closed-loop management, and put forward proposals for problems found and supervised relevant department to make corrections;

– Carry out regular customer satisfaction surveys, collect customer feedback information, and make comprehensive analysis of the opinions collected to measure and evaluate customers’ feelings towards the products and services of the Company, so as to measure and evaluate the effectiveness of the quality management system;

– The Company kept improving the after-sales service level in 2019, improved the business level of employees by organizing trainings, and further standardized the service process and requirements for attitude of the business personnel, so as to improve external image of the Company and ensure timely communication and processing of the repair application and consultancy of users;

– Organize the service activity of “Water the Wine City” from time to time to provide users with water consultancy, repair and maintenance, business handling and other services, and promote WeChat payment and electronic invoice business;

– Standardize the handling of customer complaints, and clarify the procedures and steps for the business personnel to handle customer complaints to ensure the efficient handling of customer complaints and improve service level of the Company.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 1.2 Wastewater Treatment

The Company, as an enterprise bearing heavy responsibility for environmental protection, strictly complied with the laws and regulations such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002), the Technical Specification for Operation, Maintenance, and Safety of Municipal Wastewater Treatment Plant (CJJ60-2011), the Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143), the Opinions about Deepening Environmental Monitoring Report and Improving Environmental Monitoring Data Quality, the Regulations of Drainage Management of Sichuan Province, and the Regulation of Urban Drainage and Wastewater Treatment, the Technical Specification for the Operation and Assessment of Sewage On-line Monitoring System (on trial) (HJT355-2007), the Technical Specifications Anaerobic-Anoxic-Oxic Activated Sludge Process (HJ576-2010), and formulated the Compilation of Production Management System to clarify the production and operation process control, promote efficient production and ensure Wastewater Treatment reaching the standard.

During the Reporting Period, total wastewater treatment capacity of the Company is 104.5 million tons.

- *High-efficient Treatment Technology*

The Company formulated the Management Measures for Testing and Promoting New Technologies to clarify the test, promotion process and key points of control for new technologies and accelerate the technical progress. During the Reporting Period, we tested ARES (Actinic Reaction Enzyme System) process technology at plant in east of the city and tested the BBR (Bacillus Was The Dominant Bacteria In Bioreactor For Wastewater Treatment Process) process technology at plant in south of the city to further save energy and reduce consumption.

- *Assuring Water Quality*

The Company formulated management system and corresponding measures to ensure the water quality reaching the standard in accordance with relevant national and local laws and regulations, based on the practices of the wastewater treatment business of the Company. During the Reporting Period, the effluent quality of the wastewater treatment plant of the Company reached level A of the first class standard of the Standard for Pollutant Discharge of Urban Wastewater Treatment Plant (GB18918-2002).

- By establishing the Water Quality Early Warning Management System, the plant will adjust the production and operation parameters to ensure stable quality of the effluent when the effluent quality reaches the precautious line;
- All sites of production and operation are equipped with water inlet and outlet on-line monitoring and on-line measuring instruments for main production and operation parameters (such as solved oxygen, sludge concentration, oxidation-reduction potentiometer, etc.) to ensure timely mastery of the quality of inlet and outlet water and knowing of the production and operation condition in real time;
- Each branch has a laboratory for routine inspection of water quality and monitoring dosage of the on-line equipment.

During the Reporting Period, the Company was not involved in any action arising from violation of laws and regulations concerning product and service.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 2. Green Development, Promoting Environmental Protection

Centering on the national development strategy of “Green Economy”, the Company established the development goal of not only improving the living quality of the people, but also balancing the ecological environment, fulfilling the concept of green development, promoting green operation and management, realizing sustainable development of the Company, and contributing to the ecological conservation.

#### 2.1 Emissions Management

The Company carried out its work strictly in accordance with the laws and regulations and emission standards such as the Environmental Protection Law of the People’s Republic of China, the Law on Prevention and Control of Air Pollution of the People’s Republic of China, the Law on Prevention and Control of Water Pollution of the People’s Republic of China, the Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Standard for Pollutant Discharge of Urban Wastewater Treatment Plant (GB18918-2002), and the Standard for Operation and Maintenance Quality Assessment of Municipal Wastewater Treatment Plant (CJJ/T228-2014) to ensure compliant and effective treatment of the effluents.

During the Reporting Period, the Company were not involved in any material events in relation to violations or litigation arising from violation of environmental regulations.

- *Management and reduction of greenhouse gas and exhaust*

##### Water Supply Business

The consumption of electricity for production and office is the main source of greenhouse gas emission from the water supply business of the Company. During the Reporting Period, we actively took various measures to reduce the emission of greenhouse gas, referring to “2.2 Optimizing Resources Utilization” of the report for details.

The tap water supply business of the Company consumes no fuel, and only possible disorderly discharge of chlorine during storage and chlorine-adding may cause impact on the surroundings. The Company continued to adopt the method of on-site preparation of chlorine dioxide, storing the raw materials independently and setting cofferdams around the raw material barrels to prevent the leakage of liquid chlorine and raw materials for preparation of the chlorine dioxide from polluting the environment. In addition, we installed vacuum sealing device, chlorine leakage alarm and absorption device in the chlorine reservoir to reduce damage to the environment caused by exhaust gas.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### Wastewater Treatment Business

The consumption of electricity and use of fuel for production and office, and the methane gas arising from wastewater treatment are the main sources of greenhouse gas emission from the wastewater treatment business of the Company. The Company reduces the greenhouse emission mainly by centralized wastewater treatment, application of energy saving technology and reduction of energy consumption of the equipment, referring to “2.2 Optimizing Resources Utilization” of the report for details.

The exhaust emission from wastewater treatment business of the Company is mainly the foul gas generated during the wastewater treatment process. The Company effectively reduces the foul gas arising from the wastewater treatment process mainly by setting a safe distance, increasing the green area and installing the odor eliminator.

- *Waste Management and Emission Reduction*

The Company implemented centralized collection and classified storage of the wastes from tap water supply business and wastewater treatment business to ensure safe and compliant treatment and disposal of wastes, strictly in accordance with the Management Measures for Duplicate Form for Transfer of Hazardous Waste, the Measures for Preventing Pollution by Hazardous Wastes of Sichuan Province, the Identification Standards for Hazardous Wastes- General Specifications (GB 5085.7-2007), the Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001), the Technical Specifications on Identification for Hazardous Waste (HJ/T 298-2007), and the Management System for Hazardous Waste, the Hazardous Waste Contingency Plan, and the Hazardous Waste Management System of Luzhou Xinglu Wastewater Treatment Co., Ltd. of the Company.

The Company continued to implement the emission and waste reporting and registration system and the quantitative management system of waste discharge, registering the type, amount, concentration, means and destination of discharge of the wastes at all discharging positions and establishing records of pollution source, and established quota indicators for waste discharge and incorporated waste discharge quota into the production plan and technology management.

### Water Supply Business

At present, the hazardous wastes generated by the water supply business of the Company mainly include organic solvents, inorganic cyanide, strong acid, strong alkali, total phosphorus, total nitrogen, heavy metals, chromium substances, volatile phenols, etc. With respect to storage, the Company set up a hazardous waste storage for all kinds of hazardous wastes in the test center, with cofferdam around the storage sites, and stored hazardous wastes by category, indicating the type, hazard and weight. Reagent bottles containing hazardous wastes were all disposed according to the disposal method of hazardous wastes. With respect to statistics, detectors filled the amount of hazardous wastes generated on the Hazardous Waste Record, for which the monitoring station conducted statistics quarterly. The second statistics of the actual amount was carried out at the end of the year before the wastes were transferred to qualified third-party organization for centralized disposal.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

During the water quality inspection, the Company endeavored to minimize the hazardous waste mainly by adopting the testing method with less hazardous reagent consumption.

Non-hazardous wastes arising from the water supply business of the Company mainly include the dry sludge cake, containers storing non-poisonous reagent, and domestic wastes arising from the production. We discharged sewage strictly in accordance with the provisions and systems of the Company and concentrated the sludge arising from concentration and dehydration of the high turbid sewage discharged from the settling pond and filter chamber, and then dehydrated and dried it with the vacuum filter or centrifugal machine before delivering to the construction waste landfill.

### Wastewater Treatment Business

Hazardous wastes arising from the wastewater treatment business of the Company were mainly from the waste chemicals arising from water quality inspection and test, and waste oil arising from maintenance of the equipment, which were all delivered to a third-party organization for treatment and disposal.

The non-hazardous wastes generated by wastewater treatment business of the Company are mainly domestic sludge generated by wastewater treatment. During the Reporting Period, the Company concentrated and dehydrated the sludge before delivering to a qualified third-party landfills for sanitary dumping to realize harmless disposal of the sludge.

The Company took various measures to reduce the generation of non-hazardous wastes. The Company reduce water content of the sludge through sludge drying and centralized treatment to reduce the mass and volume of the sludge. The Company also cooperated with third parties such as the brick factory to make sludge into bricks, utilizing sludge as resources.

Name of Indicator	Unit	2019	2018	2017
Total emission of greenhouse gas emission	(ten thousand tons)	<b>16.02</b>	12.97	9.50
Greenhouse gas emission density	(ton/RMB million)	<b>77.51</b>	106.51	87.80
Generation of hazardous waste	(ton)	<b>31.75</b>	19.08	4.80
Density of hazardous waste generation	(kg/RMB million)	<b>15.36</b>	15.66	4.40
Generation of non-hazardous waste	(ten thousand tons)	<b>11.38</b>	10.19	4.99
Density of non-hazardous waste generation	(ton/RMB million)	<b>55.05</b>	83.63	46.20

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 2.2 Optimizing Resources Utilization

Adhering to the core value of “Innovation and Excellent, Harmony between Human and Water”, the Company fulfilled energy and resources saving, optimized resources utilization and made contribution to the economic and social sustainable development, strictly in accordance with relevant laws and regulations such as the Law of the People’s Republic of China on Conserving Energy, the Electricity Law of the People’s Republic of China, and the Regulation on Electric Power Supervision.

Main energy consumption of the Company was the electricity for production and daily office work. The Company actively promoted energy saving and consumption reduction, and actively implemented a number of energy and resource saving measures in the production and office processes. The Company is mainly engaged in water supply and Wastewater Treatment business, without consumption of finished products and packaging materials.

- Water Supply Business
- The power consumption target was set according to the pump efficiency of each water plant and the calculation of water supply at different districts and different pressures, and the monthly and annual power consumption targets were set for each water plant, which were included in the monthly and annual Key Performance Indicator (hereinafter referred to as KPI) assessment;
  - Each water plant was required to set up daily tracking records and handle and solve problems found in a timely manner. The power consumption of each water plant was monthly analyzed on a year-on-year basis, month-on-month basis, and compared with the theoretical power consumption. Propose solutions to solve problems found in a timely manner to ensure that the energy consumption is within the normal range;
  - Replace the old equipment and choose more efficient and energy-saving equipment. In 2019, the Company replaced two high-efficiency pumps in total, reducing the energy consumption of production effectively;
  - Increase the maintenance and management of the equipment, making the equipment operate in its best condition and reducing the power consumption;
  - The Company strengthened the dispatching management of water supply, and used the combination of high-efficient units as far as possible to reduce electricity consumption.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- Wastewater Treatment Business
- The Company formulated the Compilation of Production Management System, and the System of Monthly Statement of Production Energy Consumption, and held production and operation analysis meeting every month to analyze the reasons for increase or reduction of consumption and to promote reasonable use of the resources to reduce energy consumption;
  - Control the dissolved oxygen and sludge concentration during the production and start and stop the lift pump at high level to reduce electricity consumption;
  - Set up the energy consumption objective assessment mechanism to regulate the process supervision strictly, and carry out periodic monitoring, statistics, and analysis of the energy consumption;
  - Enhance the use of new process and new technology to reduce energy consumption during the process and reduce the greenhouse gas emission.
- Green Office
- Control the operation of lighting, air conditioning, computers and other equipment reasonably to avoid the waste of electricity caused by running of the equipment when no one is around;
  - Establish on-line office system, reduce paper consumption in the office and approval process, and promote the recycling of office supplies;
  - Promote green commuting and encourage employees to choose public transportation, which can not only save energy, but also reduce greenhouse gas emission and reduce air pollution.

Name of Indicator	Unit	2019	2018	2017
Diesel	(ten thousand liters)	<b>4.69<sup>1</sup></b>	1.79	3.04
Gasoline	(ten thousand liters)	<b>10.96</b>	12.11	16.59
Natural gas	(ten thousand m <sup>3</sup> )	<b>3.33</b>	3.54	4.66
Acetylene	(kg)	<b>949</b>	1,211	2,089
Purchased electricity	(ten thousand kWh)	<b>12,957.76</b>	11,178.54	8,050.17
Liquefied petroleum gas	(kg)	<b>4,111.00</b>	2,250.00	-
Comprehensive energy consumption	(ten thousand tce)	<b>1.62</b>	1.39	1.02
Comprehensive energy consumption density	(tce/RMB million)	<b>7.81</b>	11.44	9.40

<sup>1</sup> The statistical caliber of resource consumption data for the current year was added to the Fanxing Environmental that the Company acquired in February 2019, therefore resource consumption data such as "Diesel" has increased compared with historical data.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 2.3 Water Environment Protection

The Company, as a water service company, always attaches importance to water environment protection and is committed to maintaining the balance between water environment and ecological environment. The Company strictly complied with relevant laws and regulations such as the Water Law of the People's Republic of China, the Interim Measures for the Administration of Water Intaking Licenses and Water Resources Fees in Sichuan, and the Measures for the Administration of Water Conservation of Luzhou, and incorporated environment and natural resources protection into its business operation and daily office work to reduce the impact of businesses on the environment, and made great efforts to fulfill the ecological civilization construction of China.

During the Reporting Period, the Company was not involved in any investigation, punishment, action or negative media report arising from water taking or pollutant discharge.

- *Use and Management of Water Resource*

In order to ensure the rational use of water resources in the process of production and operation and reduce the pollution to the environment, the Company had implemented corresponding measures for water intake, use and drainage.

- |                   |   |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Water Intaking    | – | Intake water strictly in accordance with relevant national laws and regulations during water intake, and actively protect the natural environment nearby the intake;                                                                                                                                                                                                                                                               |
|                   | – | The Company worked out contingency plans and carried out trainings and exercises for the employees in response to sudden pollution of water quality of the Yangtze River, arranged relevant person in charge to be on duty during the peak flood period, and asked the person on duty at each production site to strengthen the patrol and principals of each production site and the Company to keep unobstructed communications. |
| Water Utilization | – | Utilization of water resources met relevant national standard and provisions;                                                                                                                                                                                                                                                                                                                                                      |
|                   | – | Set monthly and annual targets for auxiliary water ratio of each water plant, which are incorporated into the monthly and annual KPI assessment. During the Reporting Period, the actual auxiliary water ratio of the Company is 0.72% lower than the planned value;                                                                                                                                                               |

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- Set up daily tracking records to supervise the auxiliary water ratio during the production. The auxiliary water of each water plant was monthly compared and analyzed on a year-on-year basis and month-on-month basis. Find problems and propose solutions in time to ensure that the index is within the normal range;
- The wastewater treatment plant had a reclaimed water reuse system for washing and cooling of the equipment, greening and irrigation to reduce the consumption of auxiliary water during the production;
- The wastewater treatment plant regularly arranged maintenance workers to repair the toilet and other related appliances to avoid water tank leakage and other wastes of resources.

### Drainage

- The drainage process strictly complied with the national laws and regulations such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002), the Technical Specification for Operation, Maintenance, and Safety of Municipal Wastewater Treatment Plant (CJJ60-2011), the Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143), the Opinions about Deepening Environmental Monitoring Report and Improving Environmental Monitoring Data Quality, the Regulations of Drainage Management of Sichuan Province, and the Regulation of Urban Drainage and Wastewater Treatment;
- The Company discharged the bottom mud arising from water production strictly in accordance with the provisions of the Company, and recycled the supernate of the bottom mud by after concentration, and made the slurry at the bottom into mud cake through centrifugal dewatering before delivering outside for harmless disposal.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Water Resource Protection*

The Company formulated the Hygiene Protection Management to standardize water resource protection and management and establish a long-term mechanism for protecting drinking water resources and to incorporate water resource protection into daily production and operation activities.

- Set up the objective assessment mechanism to carry out daily monitoring of the use of water resources and increase the utilization rate of water resources;
- Carry out centralized patrol in drinking water source conservation area and assist governmental departments in clearing white garbage and floating objects from the water source conservation areas. In 2019, about 21.9 tons of garbage and debris were cleared from the water source conservation areas;
- Strengthen internal publicity and education of water resources protection, issue and circulate the documents related to ecological protection and water resource conservation to employees; post the knowledge of drinking water source conservation area and related systems on the wall, set up the “Water Cherishing Publicity Week” to publicize energy-saving measures; carry out training on “Green Commuting, Low-carbon and Environmental Protection” and the knowledge contest of “No Act of Wasting Water, Mind of Saving Water” and other activities to improve the employees’ awareness of water resources protection; organize planting of 77 trees to effectively conserve water and improve the soil;
- To promote water protection publicity in communities, the Company carried out the publicity activity of “June 5th Environment Day” and invited citizens and students to visit the water pollution treatment on the open day and vigorously promoted such concepts as “Prevent Risks, Eliminate Hidden Dangers, Prevent Accidents”, “Act towards a Beautiful China”.

In addition, we actively took a number of measures to reduce the impact of business operations on the environment in order to reduce other environmental pollution caused during water production and supply:

- Noise pollution: Take noise control measures on the production site of the pump station making noises to reduce the noise exposure. Hire a third party professional organization to test the noise at boundary of the plant every year, and the test results were all qualified; the wastewater treatment plant is equipped with sound barrier, soundproof room, and supporting equipment of membrane cistern for noise reduction;



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- Soil pollution: Carry out patrol and leakage detection of the pipe network, and hire a professional leakage detection company to detect leakage, so as to reduce the erosion of underground soil caused by pipe network leakage.



“June 5th Environment Day” Publicity Activity

Name of Indicator	Unit	2019	2018	2017
Amount of water intake for water production and water supply business	(ten thousand tons)	<b>16,348.69</b>	14,007.61	10,794.67
Total water consumption for production and office	(ten thousand tons)	<b>919.23</b>	713.40	—
Water consumption density	(ten thousand tons/RMB million)	<b>0.44</b>	0.59	—
Consumption of purifier	(ton)	<b>1,732.83</b>	1,964.65	—
Utilization rate of bottom sewage during water production and supply	(%)	<b>17.33</b>	20.13	—
Total discharge of urban sewage reaching sewage discharge standards	(ten thousand m <sup>3</sup> )	<b>10,827.63</b>	8,312.03	6,025.36
COD emission reduction of urban sewage	(ten thousand tons)	<b>1.68<sup>2</sup></b>	1.25	0.95
BOD emission reduction of urban sewage	(ten thousand tons)	<b>0.81</b>	0.64	—
Ammonia nitrogen emission reduction of urban sewage	(ten thousand tons)	<b>0.20</b>	0.16	0.13
Total phosphorus emission reduction of urban sewage	(ton)	<b>283.20</b>	211.62	—
Amount of office sewage discharge	(ten thousand m <sup>3</sup> )	<b>23.11</b>	17.08	9.69
Number of environmental protection trainings organized or attended	(time)	<b>57.00</b>	48.00	39.00
Number of personnel attending environmental protection training	(person-time)	<b>1,473</b>	1,682	1,793

<sup>2</sup> The Company acquired Fanxing Environmental in February 2019. As related pollutant indicator monitoring equipment is still under improvement, the “COD emission reduction of urban sewage”, “BOD emission reduction of urban sewage”, “Ammonia nitrogen emission reduction of urban sewage” and “Total Phosphorus Reduction in Urban Sewage” indicator data does not yet cover Fanxing Environmental.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 3. People Oriented, Mutual Development

We believe that employees are an important force for the long-term development of the enterprise. The Company actively protected the rights and interests of employees, helped them to grow and develop, safeguarded their health and safety, cared about their work and life, and was committed to improving their happiness and building a harmonious, equal and diverse talent team.

#### 3.1 Equal Employment

The Company strictly complied with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and Law of the People's Republic of China on the Protection of Minors, and formulated internal systems such as the Administrative Measures for Employee Recruitment to observe the principle of equal employment and safeguard legal rights and interests of the employees.

- *Equal Employment*

We attach great importance to the diversity of our employees and fully guarantee their equal employment opportunities. The Company attached great importance to standardize the recruitment process. In the process of recruitment, the recruitment information and recruitment criteria were published. The qualifications of professionals were evaluated with respect to compliance, professional competence, work attitude, etc., so as to avoid any discriminatory conditions based on gender, age, health condition and other factors and recruit talents equally.

During the employment, the Company was committed to establishing legal, compliant, and harmonious labor relations with employees. The Company complied with the Labor Law of the People's Republic of China and relevant laws and regulations to protect the rights and interests of employees when canceling the relations with employees and settling disputes with the employees dismissed. During the Reporting Period, there were 2 lawsuits caused by employment problems<sup>3</sup>, which have been settled now. The labor service company was responsible for both lawsuits, without involving the Company.

<sup>3</sup> The water pool guard of the Company, Wang, brought a lawsuit because of dissatisfaction with being dismissed. The case has been settled and the labor service company bears the responsibility.

The worker dispatched by Jiangnan Water, Yang, brought a lawsuit because of dissatisfaction with the amount of disabled employment subsidy for industrial injury. The case has been settled and the labor service company bears the responsibility.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Name of Indicator		Unit	2019	2018	2017
Total number of employees		(person)	<b>940</b>	747	775
Number and ratio of employees by gender	Male	(person)	<b>615</b>	480	498
		(%)	<b>65.43</b>	64.26	64.26
	Female	(person)	<b>325</b>	267	277
		(%)	<b>34.57</b>	35.74	35.74
Number and ratio of employees by employment type	Full-time	(person)	<b>940</b>	-	-
		(%)	<b>100</b>	-	-
	Part-Time	(person)	<b>0</b>	-	-
		(%)	<b>0</b>	-	-
Number and ratio of employees by age	Below 30 years old	(person)	<b>181</b>	146	170
		(%)	<b>19.26</b>	19.54	21.94
	31-50 years old	(person)	<b>614</b>	500	501
		(%)	<b>65.32</b>	66.93	64.65
	Above 50 years old	(person)	<b>145</b>	101	104
		(%)	<b>15.43</b>	13.52	13.42
Number and ratio of employees by education background	Doctor degree	(person)	<b>1</b>	1	-
		(%)	<b>0.11</b>	0.13	-
	Master degree	(person)	<b>7</b>	8	-
		(%)	<b>0.74</b>	1.07	-
	Bachelor degree	(person)	<b>246</b>	196	-
		(%)	<b>26.17</b>	26.24	-
Below bachelor degree	(person)	<b>686</b>	542	-	
	(%)	<b>72.98</b>	72.56	-	
Number and ratio of employees by region	Sichuan Province	(person)	<b>924</b>	703	-
		(%)	<b>98.30</b>	94.11	-
	Chongqing	(person)	<b>6</b>	15	-
		(%)	<b>0.64</b>	2.01	-
	Places outside Sichuan Province and Chongqing	(person)	<b>10</b>	29	-
		(%)	<b>1.06</b>	3.88	-
Number and ratio of minority employees	Minority employees	(person)	<b>7</b>	7	-
	Percentage of minority employees	(%)	<b>0.74</b>	0.94	-

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Safeguarding Employees' Rights and Interests*

We believe that safeguarding the legitimate rights and interests of employees is the foundation of the stable development of the enterprise and are committed to building a harmonious labor relations. The Company formulated the Compensation Management System, the Management Measures for Adjustment of Salary Grade and Level, the Measures for Linking Compensation Determination with Objective Assessment of Subsidiaries, and the Management Measures for Employee Leave to standardize the compensation, working hours and compensation and welfare of the employees, establish a perfect management system, improve work efficiency of the employees, promote the common development of the employees and the Company.

- |                          |   |                                                                                                                                                                                           |
|--------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Compensation System      | – | The Company set up a compensation structure including basic salary and performance bonus, formulated a broadband compensation system and set up a multi-level compensation for employees. |
| Working hours Management | – | The Company strictly complied with the working hours specified by China, safeguarded the rights of rest and vocation of the employees according to the national provisions;               |
|                          | – | Employees are entitled to statutory holidays, paid annual leave and other rights according to the law.                                                                                    |
| Employee Benefit         | – | Purchase “mutual medical insurance towards workers” in addition to the five social insurances and one housing fund for employees who sign labor contracts according to the law;           |
|                          | – | Provide transportation, communication and other subsidies and staff canteen for employees.                                                                                                |

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Preventing Child Labor and Forced Labor*

We are determined to prevent child labor and forced labor. The Company examined the entry qualifications of employees in accordance with the law to eliminate the employment of child labor from the source, prohibited any form of forced labor, and would actively take action to correct any violations found to ensure stable operation of the talents system of the Company.

During the Reporting Period, the Company was not involved in any violation of laws due to use of child labor and forced labor.

Name of Indicator		Unit	2019	2018	2017
Annual turnover rate of employees		(%)	10.54	5.54	-
Turnover rate of employees by gender	Male	(%)	8.96	5.60	-
	Female	(%)	13.71	5.43	-
Turnover rate of employees by age	Below 30 years old	(%)	19.78	13.77	-
	30-50 years old	(%)	7.59	4.00	-
	Above 50 years old	(%)	13.27	0.00	-
Turnover rate of employees by region	Sichuan Province	(%)	10.49	5.84	-
	Chongqing	(%)	0.00	6.25	-
	Places outside Sichuan Province and Chongqing	(%)	12.50	0.00	-

### 3.2 Promoting Development

The improvement of comprehensive quality of the employees has a crucial effect on the sustainable development of the enterprise. Adhering to the talent concept of “Common Development, Joint Creation of Excellence, and Sharing Achievements” in 2019, the Company actively built platforms for the growth and development of the employees, innovated the means of and cultivating talents, strengthened the efforts to cultivate talents, and optimized the career path for employees, so as to increase the core competitiveness of the Company and realize common development of the Company and employees.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Employee Training*

The Company set up the reserve professional talents class and reserve management talents class, set up the class committee and actively advocated independent management of the trainees; signed the tripartite target responsibility statement of the Group, the unit and the reserve talents to clarify the responsibilities and obligations of the three parties in the reserve talents cultivation and guarantee and supervise the learning results of the trainees; as well as established the on-line learning education platform for systematically planning the training and learning content and the intelligent statistics of learning results.

The Company optimized the management mechanism for reserve cadres and reserve talents, formulated and issued the Management Measures for Reserve Talents (on trial) and the Implementation Plan for Reserve Talents Management to determine the route and specification for building the reserve talent team, and incorporated reserve talent cultivation and management plan, selection, cultivation, and adjustment into normal management of the Human Resources Department.

### **Case: Training on Patrol Inspection of Secondary Water Supply Equipment**

To promote the standard management and standardization of secondary water supply, the Marketing Department and the Production Management Department carried out a training on patrol inspection of secondary water supply equipment, describing the inspection method, key point of inspection, etc. in details, and also carried out on-site operation and answered the questions of various operating and service units during the learning process on site.

After this training, the inspection and operation ability and professional skills of each operating and service unit were improved, which laid a good foundation for subsequent inspection work and provided a favorable guarantee for the establishment of the standard management and standardization of secondary water supply.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Employee Promotion and Assessment*

We have established the “dual-channel” career development system for employees. The employees can choose a development path suitable for themselves according to their post grading system and based on their own abilities and wills. The Company strictly complied with the Measures for the Implementation of Performance Appraisal and carried out assessment monthly, quarterly, and annually and promoted those with excellent performance. The Company specified the career development plan and promotion standards for employees in terms of management, technology, production and service, and function and evaluated and screened employees in accordance with the Management Measures for Adjustment of Salary Grade and Level, to ensure the fairness and transparency of the promotion of employees.

To further improve the broadband salary system for employees and promote the continuous and effective operation of the dual-channel career development system for employees, the Company organized supplementary assessment on the skill levels for the production operation and operating and service positions. According to the skill assessment, 43 junior workers, 15 middle workers and 3 senior workers were newly increased.

Name of Indicator	Unit	2019	2018	2017
Total number of trainings	(time)	<b>154</b>	155	125
Total attendees	(person-time)	<b>7,760</b>	3,349	4,017
Amount of training expenditures	(RMB ten thousand)	<b>67.70</b>	51.44	35.80
Average training time per employee	(hour/person)	<b>393.50<sup>4</sup></b>	5.85	3.93
Average training time per male employee	(hour/person)	<b>312.32</b>	7.11	4.12
Average training time per female employee	(hour/person)	<b>306.98</b>	6.58	3.60
Average training time per front-line employee	(hour/person)	<b>387.08</b>	2.75	1.45
Average training time per mid-level employee	(hour/person)	<b>479.44</b>	31.79	17.22
Average training time per senior-level employee	(hour/person)	<b>631.14</b>	73.20	63.29

<sup>4</sup> In 2019, the Company carried out quality management system documentation and safety and environmental protection training activities covering all employees. The training activities lasted half a year, so the average training hours of employees increased significantly compared with historical data.

### 3.3 Safeguarding Health and Safety

The Company firmly established the concept that “Benefits Generated Without Safety and Environmental Protection are Inadvisable, Efficiency Created Without Safety and Environmental Protection is Inadvisable” to improve the safety mechanism and safety system, strengthen the safety culture, consolidate the safety responsibility, enhance the emergency management, get well prepared for safety risk prevention and safeguard occupational health of the employees.

- *Putting Safety Production into Practice*

The Company strictly complied with relevant laws and regulations such as the Fire Prevention Law of The People’s Republic of China, the Law of the People’s Republic of China on Work safety, the Law of the People’s Republic of China on the Prevention and Control of Occupational Disease, and the Measures for the Supervision and Administration of Occupational Hygiene in Workplace, and formulated management systems such as the Targeted Management of Production Safety and Targeted Assessment Management System, the Management System for Production Safety Accountability System and the Occupational Health Management System to safeguard the health and safety of employees.

During the Reporting Period, the Company continued to improve its safety production standardized system: The certificate of safety production standardization secondary classification enterprise (industry and trade) was valid and implemented strictly in accordance with the requirements; at the end of 2019, the Company passed the re-evaluation, approval and certification of OHSAS18001 occupational health and safety management system; the head office of the group, Hejiang Water, Nanjiao Water and Beijiao Water successfully passed the re-evaluation of safety production standardization (level 2), and Fanxing Environmental passed the preliminary assessment of the safety production standardization (level 2).

Xinglu Wastewater Treatment carried out comprehensive, holiday, seasonal, professional, and routine safety, environmental protection, and occupational health inspection and hidden risk control strictly in accordance with the Work Program of Identification of Hidden Risk of Safety and Environmental Protection, and carried out various inspection works such as the Comprehensive Inspection of Safety and Environmental Protection at the End and Beginning of the Year, the Comprehensive Safety and Environmental Protection Inspection during the “Two Sessions and Chinese New Year”, and the Comprehensive Safety and Environmental Protection Inspection before the “Labor Day”.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

During the Reporting Period, the Company operated in a safe and stable manner, without any safety production accident.



Safety inspections

- *Safeguarding Employees' Health*

The Company had established a perfect occupational health and safety system, strictly complied with the laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Occupational Disease, and kept improving the working environment and office environment for employees. Organize the employees to sign the Safety, Environmental Protection, and Occupational Health Responsibility Agreement to effectively implement the safety responsibility every year. We provided necessary protective equipment for employees, such as the oxygen respirators, protective clothing and other protective equipment; regularly carried out safety education and training and safety emergency drills, including anti-terrorism emergency drill, emergency response exercise of raw water pollution of the Yangtze River, double-blind production emergency exercises, etc., to improve the awareness of safety production and self-protection ability of the employees; and insisted on monitoring the hazard factors of occupational diseases and carrying out physical examination for employees every year to ensure occupational health of the employees.

The Company engaged professional detection company to detect noise and chlorine at each production site every year and the results showed that the occupational hazard factors exposed during the course of production of the Company all met the safety standard.

The occupational health management team of Xinglu Wastewater Treatment strictly implemented the Occupational Health Management System of the Company and organized occupational health physical examination for front-line employees of each branch company before, during and after duty based on the practices of the Company.

**Case: Training on Occupational Health Prevention and Protection**

From September 6 to 7, 2019, personnel from Xinglu Wastewater Treatment, Fanxing Environmental, Hejiang Water, and Nanjiao Water and other units attended the occupational health and safety training according to the requirements for occupational health and safety training management of Luzhou Health Bureau. The training systematically introduced laws and regulations related to occupational diseases, basic knowledge of occupational health (including the concept of occupational disease, occupational hazard factors, harm of the occupational hazard factors to human, etc.), occupational disease diagnosis and typical cases, occupational health management of the employer, etc., which strengthened the awareness of the occupational disease prevention and management of all units. The personnel of all units successfully completed the training.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Name of Indicator	Unit	2019	2018	2017
Investment in safety production	(RMB ten thousand)	<b>801.62</b>	956.32	535.49
Times of safety education and training	(time)	<b>225</b>	210	64
Number of employees attending safety education and training	(person-time)	<b>4,539</b>	4,160	1,738
Coverage rate of physical examination for employees	(%)	<b>100</b>	100	–
Coverage rate of special examination for the females	(%)	<b>100</b>	100	–
Coverage rate of occupational disease examination	(%)	<b>100</b>	100	–
Number of work-related accident	(time)	<b>1<sup>5</sup></b>	1	0
Number of workers died due to occupational injury	(person)	<b>2</b>	2	0
Number of working days lost due to occupational injury	(number of lost working days per 200 thousand working hours)	<b>261</b>	14	0

### 3.4 Focus on Care for Employees

Considering employees as the important wealth of the Company, the Company attached great importance to humanistic care, and actively held sports activities, festival greetings, helping employees with difficulties and other caring activities to enrich spiritual and cultural life of the employees, and continued to enhance the cohesion of the team and the sense of belonging of employees.

- *Promoting Democratic Construction*

The Company continued to give full play to the functions of democratic management and democratic supervision of the employee representative congress by strengthening the construction of institutionalization and standardization this year, and established the information management mechanism of transmitting order from the superior to the inferior and notifying the superior of the circumstance of the inferior. Improve the political abilities of the employees by continuously improving the management measures.

<sup>5</sup> The work-related accident in 2019 was an accident in which our employees were hit by a truck while inspecting the scene, causing the injury of two employees of the Company and the other party was fully responsible for the accident.

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

The Company actively and timely disclosed information about the hot and difficult issues closely related to the production, operation, and management of the Company, involving immediate interests of the employees and widely cared and concerned by users, accepted democratic supervision, and based the supervision of honesty of leaders by the Company on democratic management to give full play to supervisory role of the employees and users.

- *Assistance to employees in difficulties*

In 2019, adhering to the main line of “Warmth Project”, the Company continued to care for the ideological trend and difficulties of the employees, and insisted on helping employees in difficulties and endeavored to relieve their life pressure, making them feel the care of the Company and increasing their sense of belong.

- Continue to update the record of employees with difficulties so as to provide assistance to such employees in a timely manner;
- Visit and provide assistance to employees in hospital the first time;
- The Company provided care and assistances to employees who were in difficulties for any reason.

- *Recreational and sports activities*

To continuously create the working environment with full of vigor and vitality, the Company actively held recreational and sports activities to enrich the spare-time life of the employees and cultivate their healthy sentimentality.

- Organize employees to participate in the “May Day Fun Games” held by the trade union to strengthen the physical quality of employees as well as enhance the spirit of solidarity;
- Carry out the May Day activity of “Drinking the Water of Yangtze River and Protecting the Mother River Together”, stimulating the enterprise of employees through the fierce competition system and enhancing the cohesion of employees through teamwork;
- Hold the activity of “Singing Competition to Celebrate the 70th Anniversary of the Founding of the People’s Republic of China”, and organized employees of the Company to shoot the flash video of “My People, My Country” to enhance their patriotism and strengthen the team atmosphere and centripetal forces;
- Hold the thematic photographic exhibition of “Recalling the Turbulent Past, Remembering the Striving, and Praising the Glory” and organize the thematic educational speech contest of “Remembering Initiatives and Mission” to enrich the spare-time and cultural life of employees and further spread the culture of the Company.

**Case: The Activity of “Singing Competition to Celebrate the 70th Anniversary of the Founding of the People’s Republic of China”**

The Company held a singing competition for celebrating the 70th anniversary of the founding of China. Members of the leading group, chairman of each division of the labor union, and employee representatives, over 300 persons in total, were invited to this activity. Secretary of the party committee and chairman of the Company reviewed the development process of the Company and expressed the vision of future development targets of the Company in his speech. A total of 11 teams from divisions of the labor union and cadres and employees of subsidiaries of the Company sang out with full enthusiasm and presented a gift for 70th anniversary of the founding of the People’s Republic of China with popular classic songs.

In addition to celebrating the 70th anniversary of founding of the PRC, this activity highlighted the good spirit of cadres and employees of the Company to advance bravely to a new era, united the power of every member of the Company, and promoted better, faster, and high-quality development of Xinglu Water to make further contribution to the ecological civilization construction and boost the economic development.



**Case: May Day Activity of “Drinking the Water of Yangtze River and Protecting the Mother River Together”**

The Company organized the activity of “Drinking the Water of Yangtze River and Protecting the Mother River Together” on the May Day to celebrate the festival belonging to every member of Xinglu Water in a special way. For every member of Xinglu Water who “lives by water and prospers by water”, this activity was of special significance, which exactly supplemented the corporate vision of “Let Life Go Forward, Let Ecology Return”.

This activity was composed of three parts, including water source conservation area patrol, white garbage clearing at the water source conservation area and publicity of water pollution prevention and control law, and foot race. The employees actively participated in and enthusiastically devoted to the competition, showing the positive metal attitude of the employees of Xinglu Water.

This activity enabled the employees to better understand the importance of environmental protection, as well as enhanced the mutual understanding among the employees and strengthened the team cohesion.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- *Care for Female Employees*

In order to further unite women's power and mobilize the working enthusiasm, initiative and creativity of female employees, the Company carried out a number of female employees caring activities and created a warm and harmonious working environment.

- Organize female employees to a series of fun activities such as flower arrangement, activity base visit, etc. on the "International Working Women's Day";
- Care for female employees after pregnancy and childbirth;
- Organize gynecological examination periodically for female employees and care for physical and mental health of female employees.

### 4. Achieving Win-win Results and Devoting to Public Benefit

The Company attached importance to strengthening the supply chain management, adhered to the idea of "Win-win, Consensus, Concurrence, Sharing, and Resonance", and actively cooperated with suppliers and partners in businesses to achieve win-win results and promote mutual development. In the meantime, the Company continued to devote itself to public welfare establishments, giving back to the society with practical actions and striving to build a harmonious socialist society by participating in community and poverty alleviation activities.

#### 4.1 *Achieving Win-win Results with Partners*

During the Reporting Period, the Company further revised the internal systems such as the Management Provisions for Materials Procurement, the Management Measures for Materials Procurement Acceptance, the Supplier Management Measures, and the Materials Management Measures and optimized the procurement process, strengthened the supplier management at the level of supplier access, supervision and evaluation, and suppliers' fulfillment of social responsibilities to ensure the procurement process was rational and compliant.

- |                 |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Supplier access | – | According to the supplier screening process of the Company, suppliers are required to fill the Supplier Questionnaire and provide valid certificates such as the business license, quality and environment management system certificates, special equipment design or manufacturing permit, and the water sanitation permit, and the Material Supply Department assesses and grades the suppliers in terms of technological level, quality of materials, lead time, product price, after-sales service and relevant qualifications (ISO9001, ISO14001); |
|-----------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- Suppliers being approved will be listed on the List of Suppliers for one year of trial. Organize the personnel of relevant departments for field investigation and review before the trial, if necessary;
  - Suppliers passing the trial will be listed on the List of Qualified Suppliers. The Company keeps the suppliers' files and follows up their goods quality and services.
- Supervision of suppliers
- Perform dynamic management of the qualified suppliers, carrying out site visit and investigation on the suppliers of main materials or important materials irregularly;
  - Follow up and investigate the quality, lead time of materials, service and price of materials of the suppliers regularly, as the basis of daily appraisal and assessment of the suppliers.
- Evaluation of suppliers
- The Company carries out annual comprehensive assessment of all suppliers at the end of the year, and degrades or cancels the qualifications of those suppliers in violation of the Supplier Management System.
- Management of the performance of environmental and social responsibilities by suppliers
- The Company pays attention to the performance of environmental and social responsibilities of the suppliers, and if we become aware of any environmental pollution caused by the supplier, or breach of the labor standards, the Company will degrade or cancel the supplier's qualification based on the extent of breach;
  - Enter into the annual contract and an environmental, occupational safety and health management agreement with the suppliers to effectively control the environmental factors and occupational health and safety risks concerning the product and transportation;
  - For the procurement of main materials and products, the Company gives priority to manufacturers with green credentials.



## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Name of Indicator		Unit	2019	2018	2017
Total number of suppliers		(quantity)	<b>146</b>	133	142
Number of suppliers by region	Number of suppliers in Sichuan Province	(quantity)	<b>103</b>	94	86
		(%)	<b>71</b>	71	61
	Number of suppliers in Chongqing	(quantity)	<b>16</b>	15	23
		(%)	<b>11</b>	11	16
	Number of suppliers in other mainland regions than Sichuan Province and Chongqing	(quantity)	<b>27</b>	24	33
		(%)	<b>18</b>	18	23
Number and ratio of suppliers by category- wastewater treatment business	General equipment	(quantity)	<b>18</b>	21	-
		(%)	<b>20</b>	27	-
	Professional equipment	(quantity)	<b>23</b>	19	-
		(%)	<b>26</b>	24	-
	Special equipment	(quantity)	<b>0</b>	1	-
		(%)	<b>0</b>	1	-
	Safety suppliers	(quantity)	<b>3</b>	3	-
		(%)	<b>3</b>	4	-
	Production reagent	(quantity)	<b>8</b>	6	-
		(%)	<b>9</b>	8	-
	Auxiliary and logistics materials	(quantity)	<b>16</b>	16	-
		(%)	<b>18</b>	21	-
Service outsourcing	(quantity)	<b>22</b>	12	-	
	(%)	<b>24</b>	15	-	

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Name of Indicator		Unit	2019	2018	2017
Number and ratio of suppliers by category- water supply business	Main materials	(quantity)	<b>29</b>	20	-
		(%)	<b>52</b>	36	-
	Auxiliary materials	(quantity)	<b>5</b>	13	-
		(%)	<b>9</b>	24	-
	Important materials	(quantity)	<b>7</b>	7	-
		(%)	<b>13</b>	13	-
	Equipment	(quantity)	<b>14</b>	14	-
		(%)	<b>25</b>	25	-
	Electric	(quantity)	<b>1</b>	1	-
		(%)	<b>2</b>	2	-
Assessment rate of executing relevant practices for the suppliers		(%)	<b>100</b>	100	-

### 4.2 Devoting to Public Welfare

We always remember our initiatives and participate in charity activities enthusiastically, help the poor people, closely connect development of the Company with social responsibility, and actively give back to the society to make contribution to the construction of a harmonious society.

- *Community Participation*

During the Reporting Period, the Company actively organized its employees to carry out volunteer activities, took part in construction of the communities, and promoted harmonious development of the society;

- The Company actively carried out the “1h Weekend” volunteer service activities, organizing volunteers to publicize general knowledge about water use to the customers and provide home repair every weekend, and reported brief news about the activities on time every week;
- The Wastewater Treatment Plant of the Company organized volunteers to carry out environmental education and explanation on the public open day to improve the awareness of environmental protection of the public;
- Organize a team of volunteers to assist the work of “Recheck of National Civilized Cities”.

**Case: Volunteer Activity of “Recheck of National Civilized Cities”**

In 2019, the Company organized volunteers and a service team to assist the work of “Recheck of National Civilized Cities”. Volunteers cleaned, repaired and replaced the water supply facilities such as pipe network, water meter boxes and valves in the three districts to ensure that the facilities were clean and in order; strengthen the management of construction site to ensure standard fencing and safe and civilized construction on the construction site; in the meantime, the organization guaranteed the implementation of community gridded management of 60 persons and actively watched over the points for which it was responsible and provided volunteer services such as civility monitoring.



- *Precise Poverty Alleviation*

During the Reporting Period, the Company played an active leading role in poverty alleviation, organized employees to participate in poverty alleviation work, improved the economic development level of poor-stricken areas, and promoted social stability and unity.

In 2019, the Company strengthened its efforts to help Yuxiangping Village of Xuyong County, which was the object of the poverty alleviation pair work of the Company, by visiting, offering suggestions on industrial development, clothing donation and financial support to help with rural revitalization and poverty alleviation.

- Leaders of the Company organized research in Yuxiangping Village of Xuyong county and carried out the pair assistance and visit activity;
- Carry out the activity of “Going into the Masses, Serving the Masses, and Guiding the Masses” and discuss how to realize rural revitalization through industrial assistance based on the practices of Yuxiangping Village, and jointly offer suggestions on poverty alleviation and rural revitalization for Yuxiangping Village;

## CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- The Company, relying on its professional advantages, helped Yuxiangping Village to reconstruct the water supply station, install water supply pipes, and implement the automation renovation of the water supply station, with the assistance fund of RMB100,000, changing Yuxiangping Village from a village short of water to a happy village with tap water to every household;
- Organize the “Warm Winter Action”, sending donated clothing to poor households;
- Donate RMB57,570 to Yuxiangping Village through Luzhou Foundation for Poverty Alleviation to help the areas expected to get rid of poverty with safe housing renovation and the flood discharge facilities renovation of the village office.

In addition, the Company carried out poverty alleviation activities in other villages of Xuyong County to help improve the living standard of local people, including:

- Make designated donation to Gongyu Village to widen the country road, focusing on the construction of infrastructure;
- Provide funds to Dayan Village to improve appearance and environment of the village and establish an education and training base of party members;
- Provide funds to Pushi Village to carry out the reconstruction and additional work of the water supply station to ensure water use safety of the villagers, so as to help with rural revitalization and poverty alleviation. The annual total assistance fund was about RMB450,000;
- A total of RMB150,000 was provided to Chahe Village to strengthen the construction of activity base of the village, improvement of environment of the village, education and training, industrial support. etc.; carry out the thematic party day activity of “Red Dayan, Poverty Alleviation Helping”, inviting the village party branch to the party class together and visiting the poor households.

Name of Indicator	Unit	2019	2018	2017
Number of public benefit activities organized or attended	(time)	128	119	131
Number of employees organizing or attending public benefit activities	(person)	863	514	566
Hours of organizing or attending public benefit activities	(hour)	808	938	351
Amount of external donation	(RMB ten thousand)	171.80	18.30	36.30

# 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 139 to 272, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 estimation exercised by the directors of the Company on the impairment assessment.

As disclosed in note 20 to the consolidated financial statements, for the purpose of impairment assessment, the carrying amount of the IA was RMB915 million. Determining the amount of impairment for such IA requires an estimation of the recoverable amounts, which are the value in use ("VIU") of the cash generating units ("CGUs") to which the IA have been allocated and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 5 and 20 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 2019.

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; 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

#### **Impairment assessment of receivables under service concession arrangements (the "Receivables")**

We identified the impairment assessment of the Receivables as a key audit matter due to the significance of the Receivables to the Group's consolidated financial statements and the involvement of subjective estimation and management estimates in evaluating the expected credit losses ("ECL") of the Group's Receivables at the end of the reporting period.

At 31 December 2019, the carrying amount of the Receivables is approximately RMB1,169 million as disclosed in note 20 to the consolidated financial statements, which represented approximately 20% of total assets of the Group.

As disclosed in note 41(b) to the consolidated financial statements, the management of the Group estimates the amount of 12-month ECL of the Receivables individually, after considering internal credit ratings of certain governmental authorities (the "Grantors"), ageing and historical observed default rates over the expected life of the Receivables. Estimated loss rates are based on historical observed default rates over the expected life of the Grantors and are adjusted for forward-looking information.

As disclosed in note 41(b) to the consolidated financial statements, the Group did not recognise any impairment of the Receivables as at 31 December 2019 and for the year then ended.

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

- Obtaining an understanding of the Group's credit policy granted to the Grantors, and key controls on how the management estimates the loss allowance for the Receivables;
- Assessing and testing the integrity of information used by management to assess impairment of the Receivables as 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant service concession arrangements and other supporting documents;
- Understanding and challenging the reasonableness of the management's basis and estimation in determining credit loss allowance on the Receivables as at 31 December 2019, including their identification of any credit impaired Receivables and the basis of estimated loss rates applied to the Grantors (with reference to historical default rates and forward-looking information);
- Evaluating the disclosures regarding the impairment assessment of the Receivables in note 41(b) to the consolidated financial statements; and
- Testing subsequent settlements of the Receivables, a sample basis, by inspecting supporting documents in relation to cash receipt from the Grantors.

## INDEPENDENT AUDITOR'S REPORT (Continued)

### KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<b>Impairment assessment of goodwill</b>	
<p>We identified the impairment assessment of goodwill as a key audit matter due to significant judgement exercised by the directors of the Company on the impairment assessment.</p>	<p>Our procedures in respect of the impairment assessment of goodwill included:</p>
<p>As disclosed in note 21 to the consolidated financial statements, the goodwill of RMB25 million arose from acquisitions of two subsidiaries in the year ended 31 December 2018. For the purpose of impairment testing, the goodwill has been allocated to two CGUs, comprising the two subsidiaries, respectively. Determining the amount of impairment for the goodwill requires an estimation of the recoverable amounts, which are VIU of the CGUs to which the goodwill has been allocated and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 5 and 21 to the consolidated financial statements.</p>	<ul style="list-style-type: none"><li data-bbox="770 696 1385 879">• Understanding the directors' impairment assessment process, including the allocation of the goodwill to CGUs, the valuation model and assumptions used by the independent valuer engaged by the Group;</li><li data-bbox="770 922 1385 987">• Evaluating the appropriateness of the model used and reviewing the calculation of VIU;</li><li data-bbox="770 1030 1385 1213">• Understanding the future business plan of the two subsidiaries and the directors' estimate of future economic conditions involved in the preparation of financial budgets for the calculation of VIU;</li><li data-bbox="770 1256 1385 1364">• Evaluating the reasonableness of the budgeted cash inflows and outflows in the financial budgets;</li><li data-bbox="770 1407 1385 1558">• Challenging the management and the valuer about the reasonableness of the major assumptions and estimations used in the calculation of VIU; and</li><li data-bbox="770 1601 1385 1737">• Reviewing whether the disclosures of the impairment assessment in the consolidated financial statements are sufficient and appropriate.</li></ul>

The directors of the Company determine that there was no impairment on the goodwill for the year ended 31 December 2019.



## INDEPENDENT AUDITOR'S REPORT (Continued)

### 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.

### 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

27 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	6,7		
Tap water supply		<b>317,538</b>	235,619
Wastewater treatment operating services		<b>266,893</b>	194,081
Interest income		<b>55,835</b>	40,310
Installation services		<b>291,372</b>	282,953
Construction and upgrade services of infrastructure		<b>1,135,494</b>	465,243
Total revenue		<b>2,067,132</b>	1,218,206
Cost of sales and services		<b>(1,691,668)</b>	(939,810)
Gross profit		<b>375,464</b>	278,396
Other income, expenses, gains and losses, net	8	<b>36,879</b>	30,003
Impairment losses under expected credit loss model, net of reversal	9	<b>(1,346)</b>	(1,470)
Distribution and selling expenses		<b>(18,180)</b>	(13,268)
Administrative expenses		<b>(84,454)</b>	(69,795)
Finance costs	10	<b>(76,369)</b>	(37,236)
Profit before tax	12	<b>231,994</b>	186,630
Income tax expense	11	<b>(30,471)</b>	(19,388)
Profit for the year		<b>201,523</b>	167,242
<b>Other comprehensive income (expense):</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income (before tax)		<b>492</b>	(818)
Deferred income tax on fair value (gain) loss on investments in equity instruments at fair value through other comprehensive income		<b>(123)</b>	204
Other comprehensive income (expense) for the year, net of income tax		<b>369</b>	(614)
Total comprehensive income for the year		<b>201,892</b>	166,628

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Profit for the year attributable to:			
– Owners of the Company		<b>190,591</b>	154,065
– Non-controlling interests		<b>10,932</b>	13,177
		<b>201,523</b>	167,242
Total comprehensive income for the year attributable to:			
– Owners of the Company		<b>190,960</b>	153,451
– Non-controlling interests		<b>10,932</b>	13,177
		<b>201,892</b>	166,628
<b>EARNINGS PER SHARE (RMB)</b>			
– Basic	15	<b>0.22</b>	0.18

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
<b>Non-current Assets</b>			
Property, plant and equipment	16	56,663	39,919
Right-of-use assets	17	76,893	–
Contract assets	26	181,203	–
Prepaid lease payments	18	–	76,745
Investment properties	19	12,173	12,622
Goodwill	21	25,278	25,278
Intangible assets	20	2,714,174	1,947,203
Equity instruments at fair value through other comprehensive income	22	57,765	57,273
Prepayment and other receivables	25	14,526	4,000
Receivables under service concession arrangements	20	1,146,359	833,537
Deferred tax assets	23	29,925	21,568
		<b>4,314,959</b>	3,018,145
<b>Current Assets</b>			
Inventories	27	45,351	33,002
Receivables under service concession arrangements	20	22,784	17,454
Trade receivables	24	269,913	129,228
Prepayments and other receivables	25	38,784	45,864
Prepaid income tax		9,726	–
Contract assets	26	18,209	18,606
Prepaid lease payments	18	–	1,857
Bank balances and cash	28	1,095,877	547,681
		<b>1,500,644</b>	793,692
<b>Current Liabilities</b>			
Trade payables	29	54,134	43,415
Other payables	30	793,888	356,404
Tax liabilities		4,107	17,912
Borrowings	32	491,932	392,256
Lease liabilities	34	37	–
Provisions	35	3,657	1,769
Contract liabilities	31	226,379	176,350
		<b>1,574,134</b>	988,106
<b>Net Current Liabilities</b>		<b>(73,490)</b>	(194,414)
<b>Total Assets Less Current Liabilities</b>		<b>4,241,469</b>	2,823,731

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
<b>Capital and Reserves</b>			
Share capital	37	859,710	859,710
Share premium and reserves		1,159,702	1,020,325
Equity attributable to owners of the Company			
Non-controlling interests	39	108,066	76,876
<b>Total Equity</b>		<b>2,127,478</b>	1,956,911
<b>Non-current Liabilities</b>			
Deferred tax liabilities	23	17,776	16,766
Borrowings	32	931,641	452,178
Lease liabilities	34	46	–
Provisions	35	293,781	229,164
Deferred income - government grants	33	173,849	168,712
Bonds payable	36	696,898	–
		2,113,991	866,820
		4,241,469	2,823,731

The consolidated financial statements on pages 139 to 272 were approved and authorised for issue by the board of directors on 27 March 2020 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 2019

## Attributable to owners of the Company

	Share capital RMB'000	FVTOCI reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserves RMB'000 (Note)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	859,710	3,346	412,611	22,694	491,225	1,789,586	91,676	1,881,262
Profit for the year	-	-	-	-	154,065	154,065	13,177	167,242
Other comprehensive expense for the year	-	(614)	-	-	-	(614)	-	(614)
Total comprehensive (expense) income for the year	-	(614)	-	-	154,065	153,451	13,177	166,628
Appropriation for the year	-	-	-	26,945	(26,945)	-	-	-
Capital contributions by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	31,000	31,000
2017 final dividend declared (Note 14)	-	-	-	-	(68,777)	(68,777)	-	(68,777)
Dividend declared to non-controlling interests	-	-	-	-	-	-	(1,990)	(1,990)
Acquisitions of additional equity interests from non-controlling interests of subsidiaries	-	-	5,775	-	-	5,775	(76,908)	(71,133)
Acquisitions of subsidiaries	-	-	-	-	-	-	19,921	19,921
At 31 December 2018	<b>859,710</b>	<b>2,732</b>	<b>418,386</b>	<b>49,639</b>	<b>549,568</b>	<b>1,880,035</b>	<b>76,876</b>	<b>1,956,911</b>
Profit for the year	-	-	-	-	190,591	190,591	10,932	201,523
Other comprehensive income for the year	-	369	-	-	-	369	-	369
Total comprehensive income for the year	-	369	-	-	190,591	190,960	10,932	201,892
Appropriation for the year	-	-	-	30,378	(30,378)	-	-	-
Capital contributions by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	17,342	17,342
Adjustment to capital contribution by a non-controlling shareholder of a subsidiary (Note 45)	-	-	-	-	-	-	(5,541)	(5,541)
2018 final dividend declared (Note 14)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Dividend declared to non-controlling interests	-	-	-	-	-	-	(800)	(800)
Acquisition of a subsidiary (Note 38)	-	-	-	-	-	-	9,257	9,257
At 31 December 2019	<b>859,710</b>	<b>3,101</b>	<b>418,386</b>	<b>80,017</b>	<b>658,198</b>	<b>2,019,412</b>	<b>108,066</b>	<b>2,127,478</b>

Note: Pursuant to the relevant laws in The People's Republic of China (the "PRC"), each entity 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 entity 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 2019

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>231,994</b>	186,630
Adjustments for:		
Bank interest income	<b>(4,321)</b>	(4,329)
Foreign exchange (gains) losses, net	<b>(211)</b>	312
Deferred income in respect of government grants recognised	<b>(6,726)</b>	(13,832)
Profit from construction and upgrade services of infrastructure	<b>(2,011)</b>	(1,152)
Depreciation and amortisation	<b>110,245</b>	82,800
Gains on disposal of property, plant and equipment, net	<b>(980)</b>	–
Impairment losses under expected credit loss model, net of reversal		
– on trade and other receivables	<b>(577)</b>	408
– on contract assets	<b>1,923</b>	1,062
Impairment losses on inventories	<b>–</b>	2
Finance costs	<b>76,369</b>	37,236
Operating cash flows before movements in working capital	<b>405,705</b>	289,137
Increase in inventories	<b>(12,309)</b>	(2,315)
(Increase) decrease in trade and other receivables and prepayments	<b>(156,900)</b>	2,056
Increase in contract assets	<b>(284,657)</b>	(9,204)
Decrease in receivables under service concession arrangements	<b>24,341</b>	14,388
Increase (decrease) in trade and other payables	<b>223,183</b>	(10,607)
Increase in contract liabilities	<b>50,029</b>	50,831
Increase in provisions	<b>55,581</b>	46,890
Cash generated from operations	<b>304,973</b>	381,176
Income tax paid	<b>(63,395)</b>	(35,444)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>241,578</b>	345,732

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES	2019 RMB'000	2018 RMB'000
<b>INVESTING ACTIVITIES</b>		
Interest received	4,321	4,329
Withdraw (payment) of a tender deposit in respect of a wastewater treatment facility and pipeline network construction project	20,000	(20,000)
Purchases of property, plant and equipment, and construction and upgrade services of infrastructure	(730,803)	(467,155)
Government grants received	11,863	37,508
Proceeds on disposal of property, plant and equipment	999	85
Acquisitions of subsidiaries	38 (104,770)	(46,024)
Payments of security deposits for other borrowings	32(f) (5,450)	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(803,840)</b>	<b>(491,257)</b>
<b>FINANCING ACTIVITIES</b>		
Acquisitions of additional equity interests from non-controlling interests in subsidiaries	–	(71,133)
Capital contributions by non-controlling shareholders of subsidiaries	17,342	4,000
Proceeds from new borrowings	921,460	471,362
Repayments of borrowings	(419,137)	(306,843)
Proceeds from issuing corporate bonds	696,570	–
Payments of lease liabilities	(38)	–
Payment of interest expenses	(53,383)	(33,634)
Payment of final dividend	(51,583)	(68,777)
Dividends paid to non-controlling interests	(800)	(1,990)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1,110,431</b>	<b>(7,015)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>548,169</b>	<b>(152,540)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>547,681</b>	<b>700,075</b>
Effect of foreign exchange rate changes	27	146
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER,</b>		
Represented by:		
Bank balances and cash	1,095,877	547,681

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

## 1. GENERAL

The Company was established in The People's Republic of China 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 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 People's Republic of China (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 City Xinglu Investment Group Co., Ltd.) ("Xinglu Investment"), which is established in the PRC as a limited liability company under the Company Law of the PRC.

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

## 2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group had net current liabilities of RMB73,490,000 as at 31 December 2019. In the opinion of the Directors, the consolidated financial statements of the Group have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations and the current bank facilities available to the Group as at 31 December 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

#### New and Amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 16	<i>Leases</i>
IFRIC-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>

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

#### 3.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Lease* (“IAS 17”), and the related interpretations.

##### *Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

#### New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

##### 3.1 IFRS 16 Leases (Continued)

###### *As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”) as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of land and buildings in the PRC was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

#### 3.1 IFRS 16 Leases (Continued)

*As a lessee (Continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.5%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	116
Lease liabilities discounted at relevant incremental borrowing rates	112
Less: Recognition exemption – short-term leases	65
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	47
Analysed as	
Current	25
Non-current	22
	47

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

#### 3.1 IFRS 16 Leases (Continued)

*As a lessee (Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>Note</i>	<b>Right-of-use assets</b> <i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		47
Reclassified from prepaid lease payments	(a)	78,602
		<b>78,649</b>

*Note:* (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,857,000 and RMB76,745,000, respectively, were reclassified to right-of-use assets.

Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. There is no significant impact of adjustment to refundable rental deposits paid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

#### 3.1 IFRS 16 Leases (Continued)

*As a lessor*

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Application of IFRS 16 as a lessor has had no material impact on the Group’s consolidated statement of financial position as at 1 January 2019 and 31 December 2019 and its consolidated statement profit or loss and other comprehensive income, earnings per share and cash flows for the year ended 31 December 2019.

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied under trade and other payables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. There is no significant impact of adjustment to refundable rental deposits received.

There was no significant impact of transition to IFRS 16 as a lessor on retained profits at 1 January 2019.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

#### 3.1 IFRS 16 Leases (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
<b>Non-current Assets</b>				
Prepaid lease payments	a	76,745	(76,745)	–
Right-of-use assets	a, b	–	78,649	<b>78,649</b>
<b>Current Assets</b>				
Prepaid lease payments	a	1,857	(1,857)	–
<b>Current Liabilities</b>				
Lease liabilities	b	–	(25)	<b>(25)</b>
<b>Non-current Liabilities</b>				
Lease liabilities	b	–	(22)	<b>(22)</b>

Notes:

- The adjustments are made to reclassify the non-current and current portion of prepaid lease payments to right-of-use assets upon adoption of IFRS 16.
- The adjustments are made to recognise right-of-use assets and lease liabilities relating to operating leases upon the adoption of IFRS 16.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

#### New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	<i>Insurance Contracts</i> <sup>1</sup>
Amendments to IFRS 3	<i>Definition of a Business</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 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>5</sup>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> <sup>4</sup>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>4</sup>

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

<sup>2</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

<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 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

#### Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

#### Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in IFRS standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. 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 except for equity instruments at fair value through other comprehensive income that are measured at fair values 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 IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), 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").

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. 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.

#### Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* ("IAS 12") and IAS 19 *Employee Benefits* respectively.
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

#### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue from contracts with customers

The Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- (b) the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- (c) the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”). In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue from contracts with customers (Continued)

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

*Input method*

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

*Existence of significant financing component*

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Group transferred the construction and upgrade services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue from contracts with customers (Continued)

*Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Continued)*

##### *Costs to fulfil a contract*

The Group incurs costs to fulfil contracts in its construction and upgrade service contracts of tap water supply and wastewater treatment infrastructure and provision of installation services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

#### 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 2019

### 4. 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 have 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 financial assets at amortised cost under IFRS 9 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" below.

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" above. Costs for operating services are expensed in the period in which they are incurred.

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

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

#### *Construction and upgrade services*

Revenue relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Revenue from contracts with customers" upon application of IFRS 15 above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leases

*Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 3)*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3)*

#### *Short-term leases*

The Group applies the short-term lease recognition exemption to leases of building and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

#### *Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leases (Continued)

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3) (Continued)*

##### *Right-of-use assets (Continued)*

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position.

##### *Refundable rental deposits*

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### *Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leases (Continued)

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3) (Continued)*

*Lease liabilities (Continued)*

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

*The Group as lessee (prior to 1 January 2019)*

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 (prior to 1 January 2019)*

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leases (Continued)

##### *The Group as a lessor*

##### *Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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, and such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which is derived from the Group's ordinary course of business is presented as other income.

##### *The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 3)*

##### *Refundable rental deposits*

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

##### *Sale and leaseback transactions (upon application of IFRS 16 in accordance with transitions in note 3)*

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

##### *The Group as a seller-lessee*

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as other secured borrowings within the scope of IFRS 9.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### 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 income, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee retirement 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.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

### 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Taxation (Continued)

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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment

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

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

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

#### Investment properties

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction and upgrade 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. Amortisation 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" above.

##### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

#### **Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets in use with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. 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 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (Continued)

The recoverable amounts of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. 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 belongs.

In addition, corporate assets are allocated to individual cash-generating units (“**CGUs**”) when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### Provisions

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

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangements and installation 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 except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business is accounted for as revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets*

#### *Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”), except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Classification and subsequent measurement of financial assets (Continued)*

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, expenses, gains and losses, net" line item in profit or loss.

##### *Impairment of financial assets and other items subject to impairment assessment under IFRS 9*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including bank balances, trade and other receivables and receivables under service concession arrangements) and contract assets which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

##### *Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

The Group always recognises lifetime ECL for trade receivables arising from tap water supply, wastewater treatment and installation services, and contract assets attributable to provision for installation services. The ECL on trade receivables arising from tap water supply are assessed collectively using a provision matrix while the ECL on trade receivables arising from wastewater treatment and installation services and contract assets attributable to provision for installation services are individually assessed. Such assessments are based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables and contract assets of the customers (mainly residents, corporations and local governmental bureau) and adjusted for forward-looking information that is available without undue cost or effort to assess the impairment.

For all other instruments and contract assets attributable to provision for construction and upgrade services on wastewater treatment infrastructure, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on any significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(i) Significant increase in credit risk (Continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped based on the following bases:

- Nature of financial instruments (i.e. the Group's trade receivables in relation to tap water supply are assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets, other receivables and receivables under service concession arrangements where the corresponding adjustment is recognised through a loss allowance account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Derecognition of financial assets*

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

##### *Financial liabilities and equity instruments*

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

##### *Financial liabilities*

Financial liabilities (including borrowings, bonds payable, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

##### *Derecognition of financial liabilities*

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 2019

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

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgements, 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.

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

Note 20 describes that the Group's service concession arrangements are accounted for as intangible assets and/or contract assets during construction phase or financial assets (receivables under service concession arrangements) upon completion of construction and commencement of operation in accordance with IFRIC 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;
- the entire life of each infrastructure is used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service or the infrastructure is transferred to the Grantor at nil consideration at the end of service concession period; 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Key sources of estimation uncertainty

The following 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 within the next financial year.

(a) *Impairment assessment of intangible assets recognised under service concession arrangements that have yet available for use*

Included in the intangible assets of the Group as at 31 December 2019 are intangible assets recognised under service concession arrangements of RMB915 million (2018: RMB578 million) that have yet available for use and which have been allocated to individual CGUs in tap water supply and wastewater treatment segments. Determining whether such intangible assets are impaired requires an estimation of the recoverable amount of each CGU 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 recognised. Details of the recoverable amount calculation are disclosed in note 20.

(b) *Impairment of ECL for trade and other receivables, contract assets and receivables under service concession arrangements*

To calculate ECL, the Group uses provision matrix for the trade receivables arising from tap water supply and individual assessment for other trade receivables, other receivables, contract assets and receivables under service concession arrangements. Such assessments are based on internal credit rating, customers' ageing and historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue costs or effort. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 41(b) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

##### (c) *Impairment assessment of goodwill*

As at 31 December 2019, the carrying amount of goodwill is RMB25 million (2018: RMB25 million). Determining whether goodwill is impaired requires an estimation of the recoverable amount of each CGU to which goodwill has 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 a suitable discount rate 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, 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 recognised. Details of the recoverable amount calculation are disclosed in note 21.

##### (d) *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 periods. These contractual obligations to maintain infrastructure, except for any upgrade element, shall be 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 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.

##### (e) *Fair value measurement of financial instruments*

Equity instruments at FVTOCI, amounting to RMB58 million as at 31 December 2019 (2018: RMB57 million), are measured at fair values which are determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 41(c) for further disclosures.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 6. REVENUE

#### (i) Disaggregation of revenue from contracts with customers

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Type of services</b>		
Tap water supply		
– Tap water	<b>317,538</b>	235,619
– Installation services	<b>291,372</b>	282,953
– Construction and upgrade services of tap water supply infrastructure	<b>810,677</b>	357,108
	<b>1,419,587</b>	875,680
Wastewater treatment		
– Operating services	<b>266,893</b>	194,081
– Construction and upgrade services of wastewater treatment infrastructure	<b>324,817</b>	108,135
	<b>591,710</b>	302,216
<b>Revenue from contracts with customers</b>	<b>2,011,297</b>	1,177,896
Wastewater treatment		
– Interest income on receivables under service concession arrangements	<b>55,835</b>	40,310
<b>Revenue</b>	<b>2,067,132</b>	1,218,206
<b>Timing of revenue recognition</b>		
At a point in time	<b>584,431</b>	429,700
Over time	<b>1,426,866</b>	748,196
	<b>2,011,297</b>	1,177,896
<b>Type of customer</b>		
Government	<b>1,459,511</b>	662,865
Non-government	<b>551,786</b>	515,031
	<b>2,011,297</b>	1,177,896

The Group's above revenue are derived from the PRC.

The reconciliation of the revenue from contracts with customers with the segment revenue is disclosed in note 7.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 6. REVENUE (CONTINUED)

#### (ii) Performance obligations for contracts with customers

Revenue from sale of tap water is recognised at a point in time when the Group has transmitted to the customers and the customers have accepted the water at the relevant tariff rates, which are regulated and subject to periodic review by the local governmental authorities, and collectability of the related receivables is reasonably assured. According to the relevant tap water supply agreements and concession agreements, the Group is required to provide users with tap water to meet the tap water supply quality requirements as specified by the relevant governmental bureau. Payments of transaction price for sale of tap water are agreed at the point when the customers accepted the water and are normally settled in one month according to the relevant sales agreements, and some customers pay in advance.

Revenue from provision of wastewater treatment operating services is recognised at a point in time when the wastewater has been treated based on meter reading of monthly volume of wastewater treated at the relevant tariff rates, which are regulated and subject to periodic review by the local governmental authorities, and collectability of the related receivables is reasonably assured. Where the service concession arrangements provide the Group with a guarantee of minimum volume of wastewater treated, the Group recognises wastewater treatment operating services revenue based on the higher of the actual volume and the guaranteed minimum volume of the wastewater treated, less the amount of receivables under service concession arrangements attributable to the guaranteed minimum volume of the wastewater treated. According to the relevant concession agreements, the Group is required to ensure the wastewater treated to meet pollutant emission standards as specified by the relevant governmental bureau. Payments of transaction price for provision of wastewater treatment operating services are agreed at the point when the wastewater has been treated with a credit period of 3 months and are usually settled in three to six months after the treatment of wastewater.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 6. REVENUE (CONTINUED)

#### (ii) Performance obligations for contracts with customers (Continued)

Revenue from provision of installation services is derived from fixed-price contracts with customers, such as landlords, construction companies and tap water users in the PRC. Such contracts are entered into before the services begin. Under the terms of contracts, the Group is contractually required to perform the installation services at the customers' specified sites that the Group's performance creates and enhances an asset that the customers control as the Group performs. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue over time on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of services. These construction contracts include payment schedules which require stage payments over the installation period once certain specified milestones are reached and usually require the customers to make upfront payments before installation services commence, and it gives rise to the contract liabilities until revenue recognised on the specific contract exceeds the amount of deposits. According to the relevant agreements with the customers, the Group is required to provide repairs to fix up quality problems, if any. A contract asset, net of contract liability related to the same contract, is recognised over the period in which the installation services are performed and represents the Group's right to consideration for the services performed because the right is conditional on the Group's future performance in achieving specified milestones in the contract. The contract assets are transferred to trade receivables when the rights become unconditional, being the milestones in the contracts for unconditional payments except for passage of time are reached.

Revenue from provision of construction and upgrade services of tap water supply and wastewater treatment infrastructure is derived from the service concession agreements with the relevant PRC governmental authorities. During the construction and upgrade, the Group recognises revenue at fair value of consideration for the construction and upgrade services of tap water supply and wastewater treatment infrastructure delivered over time on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of services. The fair value of consideration for the construction and upgrade services delivered by the Group is estimated at the construction costs incurred plus an appropriate profit margin, which is determined by the Directors with reference to the gross profit margins of comparable companies in the relevant years. Such revenue forms part of the cost of construction of new infrastructure or upgrade to existing infrastructure under the service concession arrangements. According to the relevant concession agreements, the Group is required to construct and upgrade the infrastructure to meet the relevant technology standards as specified by the relevant governmental bureau. Where the service concession arrangement provides the Group with a guarantee of minimum volume of services rendered (the "Guarantee"), the Group recognises the revenue for the construction and upgrade services directly attributable to the Guarantee based on the aforesaid fair value, which has taken into account the financing component in the transaction, and the Group correspondingly records it as contract asset. Contract asset is transferred to receivables under service concession arrangements upon completion of the construction and upgrade services.

Interest income on receivables under service concession arrangements is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 6. REVENUE (CONTINUED)

#### (iii) Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2019, the Group had aggregate amount of the transaction price allocated to remaining performance obligations (unsatisfied or partially unsatisfied) of installation services of RMB383,206,000 (2018: RMB295,935,000) (tax inclusive), which will be recognised as revenue during the next one to two years.

In addition to the above, the Group has the obligation of ongoing construction and upgrade of tap water supply and wastewater treatment infrastructure. As at 31 December 2019 and 2018, the Group has contracted capital commitment of such infrastructure work, as disclosed in note 43. Such infrastructure work will be recognised as revenue at fair value of the consideration for the construction and upgrade services during the next one to two years.

### 7. SEGMENT INFORMATION

Information reported to chairman of the Company, being the chief operating decision maker (“CODM”), during the year, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group’s reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply, installation, related construction and upgrade services
- Wastewater treatment – provision of wastewater treatment services and related construction and upgrade services

The tap water supply segment includes the Company and its certain subsidiaries providing tap water supply, installation, related construction and upgrade 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, installation, related construction and upgrade services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

In addition, the wastewater treatment segment includes certain subsidiaries of the Company providing wastewater treatment services and related construction and upgrade 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, “Wastewater treatment segment”, because, in the opinion of the Directors, they have similar economic characteristics and provide wastewater treatment services and related construction and upgrade services in the PRC under similar production processes to similar classes of customers in the same regulatory environment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7. SEGMENT INFORMATION (CONTINUED)

#### Segment revenue and results

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

	2019 RMB'000	2018 RMB'000
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	<b>317,538</b>	235,619
– Installation services	<b>291,372</b>	282,953
– Construction and upgrade services of tap water supply infrastructure	<b>810,677</b>	357,108
– Inter-segment sales*		
– Tap water	<b>162</b>	413
Wastewater treatment		
– From external customers		
– Operating service	<b>266,893</b>	194,081
– Interest income on receivables under service concession arrangements	<b>55,835</b>	40,310
– Construction and upgrade services of wastewater treatment infrastructure	<b>324,817</b>	108,135
Elimination*	<b>(162)</b>	(413)
Revenue	<b>2,067,132</b>	1,218,206
<b>Segment results</b>		
– Tap water supply**	<b>115,529</b>	94,834
– Wastewater treatment	<b>85,994</b>	72,408
Profit after tax	<b>201,523</b>	167,242

\* Inter-segment sales for the years ended 31 December 2018 and 2019 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 4.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7. SEGMENT INFORMATION (CONTINUED)

#### Segment assets and liabilities

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Segment assets</b>		
– Tap water supply	3,849,127	2,543,970
– Wastewater treatment	2,015,976	1,267,867
Elimination	(49,500)	–
Consolidated total assets	<b>5,815,603</b>	3,811,837
<b>Segment liabilities</b>		
– Tap water supply	2,617,314	1,281,946
– Wastewater treatment	1,120,311	572,980
Elimination	(49,500)	–
<b>Consolidated total liabilities</b>	<b>3,688,125</b>	1,854,926

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments.

#### Other segment information

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Interest income</b>		
– Tap water supply	3,163	3,296
– Wastewater treatment	56,993	41,343
	<b>60,156</b>	44,639

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7. SEGMENT INFORMATION (CONTINUED)

#### Other segment information (Continued)

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Finance costs</b>		
– Tap water supply	<b>(56,667)</b>	(19,882)
– Wastewater treatment	<b>(19,702)</b>	(17,354)
	<b>(76,369)</b>	(37,236)
<b>Depreciation and amortisation</b>		
– Tap water supply	<b>(103,184)</b>	(73,845)
– Wastewater treatment	<b>(7,061)</b>	(8,955)
	<b>(110,245)</b>	(82,800)
<b>Net reversal of impairment losses (impairment losses) on trade and other receivables</b>		
– Tap water supply	<b>635</b>	59
– Wastewater treatment	<b>(58)</b>	(467)
	<b>577</b>	(408)
<b>Impairment losses on contract assets in respect of installation services</b>		
– Tap water supply	<b>(1,923)</b>	(1,062)
<b>Gains on disposal of property, plant and equipment, net</b>		
– Tap water supply	<b>59</b>	–
– Wastewater treatment	<b>921</b>	–
	<b>980</b>	–
<b>Income tax expense</b>		
– Tap water supply	<b>(18,151)</b>	(8,858)
– Wastewater treatment	<b>(12,320)</b>	(10,530)
	<b>(30,471)</b>	(19,388)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7. SEGMENT INFORMATION (CONTINUED)

#### Other segment information (Continued)

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Provisions for maintenance of infrastructure under service concession arrangements</b>		
– Tap water supply	<b>(21,390)</b>	(21,344)
– Wastewater treatment	<b>(34,721)</b>	(29,805)
	<b>(56,111)</b>	(51,149)
<b>Additions to non-current assets (other than goodwill, financial instruments and deferred tax assets)</b>		
– Tap water supply	<b>(838,436)</b>	(548,287)
– Wastewater treatment	<b>(329,484)</b>	(21,771)
	<b>(1,167,920)</b>	(570,058)
<b>Additions to non-current assets – goodwill</b>		
– Tap water supply	–	25,278

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

#### Geographical information

The Group's operation is in the PRC and all its non-current assets other than financial instruments and deferred tax assets are situated in the PRC.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7. SEGMENT INFORMATION (CONTINUED)

#### Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer A		
– Construction and upgrade services of infrastructure *	<b>785,017</b>	380,571
Customer B		
– Operating service	<b>186,087</b>	139,811
– Interest income on receivables under service concession arrangements	<b>32,044</b>	32,254

\* Revenue generated from construction and upgrade services of infrastructure from Customer A is related to both tap water supply segment and wastewater treatment segment.

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

	2019 RMB'000	2018 RMB'000
Value-added-tax (“VAT”) refunds ( <i>Note (a)</i> )	<b>12,345</b>	14,753
Deferred income in respect of government grants recognised	<b>6,726</b>	13,832
Bank interest income	<b>4,321</b>	4,329
Late charges on tap water users	<b>3,631</b>	3,167
Commission income on garbage fees collected for governmental bureau	<b>2,038</b>	300
Gains on disposal of property, plant and equipment, net	<b>980</b>	–
Rental income less outgoings ( <i>Note (b)</i> )	<b>829</b>	663
Foreign exchange gains (losses), net	<b>192</b>	(9,684)
Sewage charges	–	(131)
Donations	<b>(1,718)</b>	(183)
Others ( <i>Note (c)</i> )	<b>7,535</b>	2,957
	<b>36,879</b>	30,003

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

*Notes:*

- a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to “Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources” (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.
- b. Rental income are all generated from operating leases, and related lease payments are fixed.
- c. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, other equipment and materials, etc.

### 9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Impairment losses, net of reversal recognised on:		
– Trade and other receivables	577	(408)
– Contract assets	<b>(1,923)</b>	(1,062)
	<b>(1,346)</b>	(1,470)

Details of impairment assessment for the year ended 31 December 2019 are set out in note 41(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 10. FINANCE COSTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest on bank borrowings	<b>42,184</b>	30,549
Interest on bonds payable ( <i>Note 36</i> )	<b>22,795</b>	–
Interest on other borrowings	<b>16,204</b>	3,085
Unwinding of the discount ( <i>Note 35</i> )	<b>10,924</b>	7,291
Interest on lease liabilities	<b>1</b>	–
	<b>92,108</b>	40,925
Less: Amount capitalised in qualified assets	<b>(15,739)</b>	(3,689)
	<b>76,369</b>	37,236

Borrowing costs capitalised during the year ended 31 December 2019 arose on the specific and general borrowing pool and the latter are calculated by applying a capitalisation rate of 5.0% (2018: Nil) per annum to expenditure on qualifying assets.

### 11. INCOME TAX EXPENSE

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current year	<b>39,212</b>	40,396
Underprovision (overprovision) in prior years	<b>624</b>	(609)
Current tax	<b>39,836</b>	39,787
Deferred tax ( <i>Note 23</i> )	<b>(9,365)</b>	(20,399)
Total income tax recognised in profit or loss	<b>30,471</b>	19,388

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 11. 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 <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
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") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
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") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
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") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
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") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
瀘州市南郊水業有限公司(Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
瀘州市四通自來水工程有限公司(Luzhou Sitong Tap Water Engineering Co., Ltd.) ("Sitong Engineering") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
瀘州市興瀘污水處理有限公司(Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment") <i>(Notes (a) and (b))</i>	7.5% or 15%	Years ended 31 December 2018 and 2019
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") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
瀘州市興合水環境治理有限公司("Luzhou Xinghe Water Governance Co., Ltd.") ("Xinghe Water") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
興瀘水務(集團)威遠清溪水務有限公司("Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.") ("Weiyuan Qingxi Water") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
威遠城市供排水安裝工程有限公司("Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.") ("Weiyuan Installation Company") <i>(Note (a))</i>	15%	Years ended 31 December 2018 and 2019
樂山市興瀘水務興嘉環保科技有限公司(Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.) ("Leshan Xingjia") <i>(Note (c))</i>	20%	Period ended 31 December 2018 and year ended 31 December 2019
瀘州市繁星環保發展有限公司(Luzhou Fanxing Environmental Development Co., Ltd.) ("Fanxing Environmental") <i>(Note (b))</i>	Nil	Year ended 31 December 2019 (Year ended 31 December 2018: N/A)
敘永縣永星水環境治理有限公司(Xuyong Yongxing Water Governance Co., Ltd.) ("Yongxing Water") <i>(Note (c))</i>	20%	Period ended 31 December 2019

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 11. INCOME TAX EXPENSE (CONTINUED)

- a. 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 2018 and 2019, 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 2018 and 2019 accounted for more than 70% of their total revenue in these years. Therefore these entities enjoy the preferential EIT rate of 15%.
- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two 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 rate of Chengdong and Chengnan is 7.5% for the year ended 31 December 2019 (2018:Nil).

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, is also entitled to be exempted from EIT in respect of the income generated by it 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. Fanxing Environmental commenced production and operation in February 2019 and the EIT rate is nil for the year ended 31 December 2019.

- c. According to the Notice on Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Notice of the State Administration of Taxation No. 13 [2019]), Leshan Xingjia and Yongxing Water enjoy the preferential tax rate of 20%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 11. 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:

	2019 RMB'000	2018 RMB'000
Profit before tax	<b>231,994</b>	186,630
Tax at PRC EIT rate of 15% ( <i>Note</i> )	<b>34,799</b>	27,995
Tax effect of expenses not deductible for tax purpose	<b>335</b>	271
Effect of tax exemption applicable to certain PRC subsidiaries	<b>(3,354)</b>	(1,052)
Effect of change in applicable tax rate on deferred tax in respect of installation revenue previously recognised	–	(3,802)
Effect of different applicable tax rate on deferred tax in respect of provision for maintenance of infrastructure under service concession arrangements	<b>(6,417)</b>	(5,432)
Effect of different applicable tax rate on deferred tax in respect of intangible assets and receivables under service concession arrangements	<b>3,332</b>	1,945
Effect of different applicable tax rates of subsidiaries	<b>1,152</b>	72
Underprovision (overprovision) in prior years	<b>624</b>	(609)
Income tax expense	<b>30,471</b>	19,388

*Note:* For the years ended 31 December 2019 and 2018, 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 2019

### 12. PROFIT BEFORE TAX

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Profit before tax has been arrived at after charging:</b>		
Depreciation of property, plant and equipment	6,164	6,030
Depreciation of investment properties	449	449
Amortisation of intangible assets	101,802	74,590
Depreciation of right-of-use assets	1,830	–
Amortisation of prepaid lease payments	–	1,731
<b>Total depreciation and amortisation</b>	<b>110,245</b>	82,800
Auditors' remuneration	2,580	3,630
Write-down of inventories	–	2
Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 13 below):		
– Salaries, wages and welfare	138,061	121,511
– Retirement benefit scheme contributions	23,177	20,544
<b>Total staff costs</b>	<b>161,238</b>	142,055
<b>and after crediting:</b>		
Gross rental income from investment properties	1,343	1,124
Less: Direct operating expenses incurred for investment properties that generated rental income	(514)	(461)
	<b>829</b>	663

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 13. 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) RMB'000	Retirement benefit scheme contributions RMB'000	
<b>2019</b>					
<i>Executive Directors</i>					
Mr. Zhang Qi*	-	175	377	89	641
Mr. Liao Xing Yue	-	178	388	89	655
Mr. Wang Jun Hua	-	155	367	89	611
<i>Non-Executive Directors</i>					
Mr. Chen Bing	-	-	-	-	-
Ms. Xu Yan	-	-	-	-	-
Mr. Xie Xin	-	-	-	-	-
<i>Independent Non-Executive Directors</i>					
Mr. Gu Ming'an	84	-	-	-	84
Mr. Lin Bing	84	-	-	-	84
Mr. Cheng Hok Kai, Frederick	100	-	-	-	100
<i>Supervisors</i>					
Ms. Qu Mei	-	-	-	-	-
Mr. Zhu Yu Chuan	-	159	82	81	322
Mr. Xu Ke	-	-	-	-	-
Ms. Huang Mei	-	155	315	89	559
Ms. Xiang Min	-	160	92	83	335
Mr. Xuan Ming	-	50	-	-	50
Mr. Xiong Hua	-	50	-	-	50
	<b>268</b>	<b>1,082</b>	<b>1,621</b>	<b>520</b>	<b>3,491</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 13. 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) RMB'000	Retirement benefit scheme contributions RMB'000	
<b>2018</b>					
<i>Executive Directors</i>					
Mr. Zhang Qi*	-	175	380	94	649
Mr. Liao Xing Yue	-	168	374	94	636
Mr. Wang Jun Hua	-	140	301	94	535
<i>Non-Executive Directors</i>					
Mr. Chen Bing	-	-	-	-	-
Ms. Xu Yan	-	-	-	-	-
Mr. Xie Xin	-	-	-	-	-
<i>Independent Non-Executive Directors</i>					
Mr. Gu Ming'an	84	-	-	-	84
Mr. Lin Bing	84	-	-	-	84
Mr. Cheng Hok Kai, Frederick	100	-	-	-	100
<i>Supervisors</i>					
Ms. Qu Mei	-	-	-	-	-
Mr. Zhu Yu Chuan	-	119	60	75	254
Mr. Xu Ke	-	-	-	-	-
Ms. Huang Mei	-	129	355	94	578
Ms. Xiang Min	-	117	70	83	270
Mr. Xuan Ming	-	50	-	-	50
Mr. Xiong Hua	-	50	-	-	50
	268	948	1,540	534	3,290

\* Mr. Zhang Qi is the Chairman of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Directors and Supervisors (Continued)

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

*Note:* The performance related incentive payments are determined by reference to the individual performance of the Directors and 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 2019 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, 4 (2018: 4) individuals were executive Directors and Supervisor whose emoluments for the year ended 31 December 2019 are included in the disclosure above and the emolument of the remaining 1 (2018: 1) individual is as follows:

	2019 RMB'000	2018 RMB'000
Salaries, wages, allowance and others	156	129
Retirement benefit scheme contributions	89	94
Performance related incentive payments	369	354
	<b>614</b>	577

The emolument of the above employee is within the following band:

	2019 (Number of employee)	2018
Less than HK\$1,000,000	1	1

During the years ended 31 December 2019 and 2018, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 14. DIVIDENDS

A final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018 (2018: RMB68,777,000 or RMB0.08 per share in respect of the year ended 31 December 2017) was declared and fully paid to the shareholders of the Company during the year ended 31 December 2019.

Subsequent to the end of the reporting period, a final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2019 (2018: final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

### 15. 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:

	2019	2018
Profit for the year attributable to the owners of the Company (RMB'000)	<b>190,591</b>	154,065
Weighted average number of ordinary shares issued ('000)	<b>859,710</b>	859,710

No diluted earnings per share is presented for the year ended 31 December 2019 and 2018 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 2019

## 16. 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 2018	18,910	34,695	16,321	6,618	76,544
Additions from acquisition of subsidiaries	1,580	1,681	709	–	3,970
Additions	–	2,345	1,588	811	4,744
Disposals	–	(106)	(1,112)	–	(1,218)
At 31 December 2018	20,490	38,615	17,506	7,429	84,040
Additions from acquisition of subsidiaries (note 38)	–	164	1,229	–	1,393
Additions	12,437	3,582	1,201	4,314	21,534
Disposals	–	–	(420)	–	(420)
<b>At 31 December 2019</b>	<b>32,927</b>	<b>42,361</b>	<b>19,516</b>	<b>11,743</b>	<b>106,547</b>
<b>Accumulated depreciation</b>					
At 1 January 2018	(7,729)	(15,773)	(12,239)	(3,483)	(39,224)
Provided for the year	(745)	(2,887)	(1,192)	(1,206)	(6,030)
Eliminated on disposals	–	66	1,067	–	1,133
At 31 December 2018	(8,474)	(18,594)	(12,364)	(4,689)	(44,121)
Provided for the year	(603)	(2,594)	(1,639)	(1,328)	(6,164)
Eliminated on disposals	–	–	401	–	401
<b>At 31 December 2019</b>	<b>(9,077)</b>	<b>(21,188)</b>	<b>(13,602)</b>	<b>(6,017)</b>	<b>(49,884)</b>
<b>Carrying amounts</b>					
<b>At 31 December 2019</b>	<b>23,850</b>	<b>21,173</b>	<b>5,914</b>	<b>5,726</b>	<b>56,663</b>
At 31 December 2018	12,016	20,021	5,142	2,740	39,919

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The 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

### 17. RIGHT-OF-USE ASSETS

	<b>Leasehold land</b> <i>RMB'000</i>	<b>Leased properties</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>As at 1 January 2019</b>			
Carrying amount	78,602	47	78,649
<b>As at 31 December 2019</b>			
Carrying amount	76,808	85	76,893
<b>For the year ended 31 December 2019</b>			
Depreciation charge	(1,794)	(36)	(1,830)
Expense relating to short-term leases			65
Total cash outflow for leases			39
Additions to right-of-use assets			74

#### Restrictions or covenants on leases

In addition, lease liabilities of RMB83,000 are recognised with related right-of-use assets of RMB85,000 as at 31 December 2019. Details of the lease maturity analysis of lease liabilities are set out in note 41(b). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 17. RIGHT-OF-USE ASSETS (CONTINUED)

#### Leases committed

As at 31 December 2019, the Group has not entered into new leases that have not yet commenced.

#### Sale and leaseback transactions – seller-lessee

To better manage the Group's capital structure and financing needs, the Group sometimes enters into sale and leaseback arrangements in relation to certain tap water and wastewater treatment infrastructure. These legal transfers do not satisfy the requirements of IFRS 15 to be accounted for as sale of the infrastructure. During the year ended 31 December 2019, the Group has raised borrowings (net of issue costs) amounting to RMB222,530,000 in respect of such sale and leaseback arrangements, details of which are set out in note 32(f).

### 18. PREPAID LEASE PAYMENTS

	As at 31 December 2018 <i>RMB'000</i>
Analysed for reporting purposes as:	
Current portion	1,857
Non-current portion	76,745
	78,602

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 19. INVESTMENT PROPERTIES

The Group leases out various offices under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 3 years, with unilateral rights to extend the lease beyond initial period held by lessees only. Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	<i>RMB'000</i>
<b>Cost</b>	
<b>At 1 January 2018, 31 December 2018 and 2019</b>	<b>17,566</b>
<b>Accumulated depreciation</b>	
At 1 January 2018	(4,495)
Provided for the year	(449)
At 31 December 2018	(4,944)
Provided for the year	(449)
<b>At 31 December 2019</b>	<b>(5,393)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2019</b>	<b>12,173</b>
At 31 December 2018	12,622

The 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 2019

### 20. 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/right-of-use assets 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 periods up to 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 or the infrastructure is transferred to the grantors at nil consideration at the end of the relevant service concession periods.

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, (unless such infrastructure is pledged against borrowings for the operation of the Group within the Service Concession Period as allowed under certain service concession agreements), and arrangements for arbitrating disputes.

As further explained in the accounting policy for “Service concession arrangements” and “Revenue from contracts with customers” set out in note 4, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a contract asset (during construction phase) or a financial asset (receivable under a service concession arrangement) (upon completion of construction and commencement of operation) or a combination of such, as appropriate.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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 has 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 terms of the concession rights granted to the Group are for the concession period from September 2003 to September 2033.

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 April 2018, the Group entered into a concession agreement with Water Resources Bureau of Jiangyang District of Luzhou Municipality (瀘州市江陽區水務局) for tap water supply operations in township streets and rural areas in Jiangyang District.

In September 2018, the Company entered into an equity transfer agreement dated 21 September 2018 with independent third parties, pursuant to which, the Company acquired 60% equity interest in Weiyuan Qingxi Water which has entered into a concession agreement with Water Resources Bureau of Weiyuan County of Neijiang Municipality (內江市威遠縣水務局) for tap water supply operations in Weiyuan County area.

Based on the above, the Directors determined that the Group has service concession arrangements with the aforesaid relevant governmental authorities to provide tap water supply in Luzhou urban area, Lu County area, Hejiang County area, Jiangyang District and Weiyuan County area commencing from the respective dates of the concession agreements/date of equity transfer agreement. Upon the respective service concession arrangements established, the then relevant infrastructure (mainly represents property, plant and equipment and leasehold land) in Luzhou urban area, Lu County area, Hejiang County area and Jiangyang District were derecognised and they were recognised as intangible assets at fair value of these infrastructure as at corresponding dates while the infrastructure in Weiyuan County area (classified as intangible assets) were acquired through the Group's acquisition of Weiyuan Qingxi Water. Besides, during the Service Concession Period, the Group also constructs/upgrades certain tap water supply infrastructure in Luzhou urban area, Lu County area, Hejiang County area, Jiangyang District and Weiyuan County area to expand its tap water supply capacity and recognises the fair value of the construction costs as intangible assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Details of the Group's service concession arrangements for providing tap water supply are as follows:

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan County area	Jiangyang District area
Term of concession rights	30 years, from 6 June 2005 to 6 June 2035.	30 years, from 1 January 2005 to 1 January 2035.	30 years, from 24 September 2003 to 23 September 2033.	30 years, from 1 July 2006 to 30 June 2035.	30 years, from 30 September 2018 to 30 September 2048.
Rights to use specific assets	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.
Pricing	<p>Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:</p> <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> <li>• reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul>	<p>Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:</p> <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> <li>• reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul>	<p>Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:</p> <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> <li>• reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul>	<p>Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:</p> <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> <li>• reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul>	<p>Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:</p> <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> <li>• reasonable compensation for losses incurred due to government policies in relation to public interest.</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan County area	Jiangyang District 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>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>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>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>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>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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan County area	Jiangyang District area
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> <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>	<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> <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>	<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> <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>	<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> <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>	<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> <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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan County area	Jiangyang District area
Rights to receive specified assets at the end of the concession period	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any	Infrastructure remained (previously invested by the Group before the concession agreement entered into in April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of the concession period, if any, will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company.	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.
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.	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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

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 ("Luzhou urban area") 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 February 2013, the Group entered into a service agreement with Lu County Urban-rural Environmental and Health Bureau that sets 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 sets 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 sets forth the grant of concession right to the Group to provide wastewater treatment service in Gulin County area.

In March and 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.

In November 2018, the Group entered into a concession agreement and supplement agreement with Shizhong District Housing and Construction Bureau of Leshan Municipality (樂山市市中區住房和建設局), that set forth the grant of concession right to the Group to provide wastewater treatment services in township streets and rural areas of Shizhong District.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

In February 2019, the Company acquired 92.5% equity interests in Fanxing Environmental which had 4 concession agreements with The People's Government of Gulin County (古藺縣人民政府), The People's Government of Jiangyang District (江陽區人民政府), The People's Government of Naxi District (納溪區人民政府) and The People's Government of Longmatan District (龍馬潭區人民政府) of Luzhou Municipality for the provision of wastewater treatment services in township streets and rural areas in respective county/district ("Luzhou Rural Area and Gulin County Rural Area").

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, Hejiang County area, Shizhong District area, Luzhou Rural Area and Gulin County Rural Area in January 2013, February 2013, August 2014, March 2012, May 2014, November 2018 and February 2019, respectively.

Except for the service concession arrangements for Luzhou urban area (excluding Naxi District) and Shizhong District area, 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.

In addition, the then infrastructure (mainly represents the relevant property, plant and equipment and leasehold land) 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 and leasehold land upon establishment of the service concession arrangement.

Besides, during the Service Concession Period, the Group also constructs certain new wastewater treatment infrastructure in Luzhou urban area, Shizhong District and Luzhou Rural Area and Gulin County Rural Area to expand its wastewater treatment capacity and recognises construction work at fair value and classifies the portion representing the extent that the Group has a contractual right to receive cash from grantors as contract assets (during the construction stage) and receivables under service concession agreements (upon completion of construction) when the Group is entitled to the minimum wastewater treatment volume guaranteed or guaranteed cash flows based on investments in infrastructure according to the relevant service concession agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Details of the Group's service concession arrangements for providing wastewater treatment service are as follows:

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area	Shizhong District area	Luzhou Rural Area and Gulin County Rural Area
Term of concession rights	30 years, from 1 January 2013 to 31 December 2042.	30 years, from 1 February 2013 to 31 January 2043.	30 years, from 1 August 2014 to 31 July 2044.	30 years, from 1 March 2012 to 28 February 2042.	30 years, from 1 May 2014 to 30 April 2044.	10 to 13 years, from the date of infrastructure put into operation.	30 years, from the date of infrastructure put into operation..
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.	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure.
Pricing	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Routine review of wastewater treatment unit tariff price is conducted every three years. Non-routine review of wastewater treatment unit tariff price is conducted upon change in production costs or additional capital expenditure incurred due to compliance with new environmental requirements.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.	Initial waste treatment unit tariff price is set out in the relevant service agreement, subject to subsequent adjustment to reflect a reasonable profit margin on the relevant operating costs based on mutual agreement.	Initial waste treatment unit tariff price is set out in the relevant service agreement, subject to subsequent adjustment to reflect a reasonable profit margin on the relevant operating costs 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.	N/A	N/A



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area	Shizhong District area	Luzhou Rural Area and Gulin County Rural 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:	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; and</li> <li>not pledge assets for borrowings unless such borrowings for the operation of the Group within the Service 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 unless such borrowings for the operation of the Group within the Service 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 unless such borrowings for the operation of the Group within the Service 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 unless such borrowings for the operation of the Group within the Service 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 unless such borrowings for the operation of the Group within the Service 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> <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 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area	Shizhong District area	Luzhou Rural Area and Gulin County Rural 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>	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/ lease without permission;</li> <li>• asset pledged without permission;</li> <li>• material quality or safety accidents;</li> <li>• unable to operate due to deterioration of financial situation</li> <li>• termination or revocation of legal entity.</li> </ul>	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/ lease without permission;</li> <li>• asset pledged without permission;</li> <li>• material quality or safety accidents;</li> <li>• liquidation or insolvency in accordance with law.</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area	Shizhong District area	Luzhou Rural Area and Gulin County Rural 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) 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.	Infrastructure is transferred to the Grantor at nil consideration at the end of the concession period.	Infrastructure is transferred to the Grantor at nil consideration at the end of the concession period.
Terms of renewal	Priority to extend concession right upon expiration if the Group's performance during concession period 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.	No right to extend the concession right.	Priority to extend the concession right upon expiration under the same conditions as other bidders.

In addition to above, the Group is also entitled to guaranteed fixed monthly payments from governmental bureau that are calculated based on its investments in the relevant infrastructure plus a margin according to the service concession arrangements in respect of Shizhong District Area and Luzhou Rural Area and Gulin County Rural Area.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. 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:

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2018	1,633,384
Acquisition of a subsidiary	182,788
Contribution by a non-controlling equity owner of a subsidiary	3,962
Additions	373,803
At 31 December 2018	2,193,937
Acquisition of a subsidiary ( <i>note 38</i> )	7,579
Adjustment to previous contribution by a non-controlling equity owner of a subsidiary ( <i>note 45</i> )	(925)
Additions	862,119
<b>At 31 December 2019</b>	<b>3,062,710</b>
<b>Accumulated amortisation</b>	
At 1 January 2018	(172,144)
Amortisation for the year	(74,590)
At 31 December 2018	(246,734)
Amortisation for the year	(101,802)
<b>At 31 December 2019</b>	<b>(348,536)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2019</b>	<b>2,714,174</b>
At 31 December 2018	1,947,203

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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.

As at 31 December 2019, intangible assets recognised under service concession arrangements of RMB915 million (2018: RMB578 million) have yet available for use 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 amount of each CGU as at 31 December 2019 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 11.4% to 15.9% (2018: 10.9% to 14.1%). No growth in cash flows of CGUs beyond the five-year period is assumed. Other 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 tap water supply and wastewater treatment services 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, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2018 and 2019. The Directors also believe that a reasonably possible increase of 0.5% in pre-tax discount rates alone (being key parameter and other assumptions remaining unchanged) would not cause the carrying amount of each CGU to exceed its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 20. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current portion	<b>1,146,359</b>	833,537
Current portion	<b>22,784</b>	17,454
	<b>1,169,143</b>	850,991
Expected collection schedule is analysed as follows:		
Within one year	<b>22,784</b>	17,454
More than one year, but not exceeding two years	<b>24,519</b>	19,840
More than two years, but not exceeding three years	<b>25,802</b>	21,360
More than three years, but not exceeding four years	<b>27,158</b>	22,379
More than four years, but not exceeding five years	<b>28,619</b>	23,449
Over five years	<b>1,040,261</b>	746,509
	<b>1,169,143</b>	850,991

The effective rate for the above financial assets fall within the range from 3.51% to 6.33% (2018: 3.51% to 6.22%) per annum.

Details of the impairment assessment are set out in Note 41(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 21. GOODWILL

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2018	–
Arising on acquisition of subsidiaries	25,278
<b>At 31 December 2018 and 2019</b>	<b>25,278</b>

For the purposes of impairment testing, goodwill has been allocated to 2 individual CGUs, comprising two subsidiaries which are mainly engaged in provision of tap water supply and installation services. The carrying amount of goodwill allocated to these units is as follows:

	<b>2019</b> <i>RMB'000</i>
Weiyuan Qingxi Water	<b>15,672</b>
Weiyuan Installation Company	<b>9,606</b>
	<b>25,278</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 21. GOODWILL (CONTINUED)

The Group engaged an independent valuer to determine the recoverable amounts of the Weiyuan Qingxi Water CGU and Weiyuan Installation Company CGU as at 31 December 2019 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 of 13.7% (2018:13.7%) for Weiyuan Qingxi Water CGU and 13.3% (2018: 14.1%) for Weiyuan Installation Company CGU. No growth in 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 water supply plants of Weiyuan Qingxi Water at the current tariff and prospects of Weiyuan Installation Company; CGUs' past performance and the management's expectation for the forecast growth in tap water supply from the increase of population in Weiyuan County area based on the future plan of Weiyuan and existing government policies applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable. Based on the above value in use calculations, the recoverable amounts of Weiyuan Qingxi Water CGU and Weiyuan Installation Company CGU exceed their carrying amounts as at 31 December 2019 by not less than RMB20,000,000. Therefore the Directors determine that there is no impairment of any of its CGUs containing the Group's goodwill as at 31 December 2019.

The Directors believe that a reasonably possible increase of 0.5% in pre-tax discount rate of Weiyuan Qingxi Water CGU alone (being key parameter and other assumptions remaining unchanged) would not result in the carrying amount of this CGU exceeding the recoverable amount as at 31 December 2019. Should the aforesaid pre-tax discount rate be increased to 16.2%, the recoverable amount in the calculation would approximate to its carrying amount.

The Directors believe that a reasonably possible increase 0.5% in pre-tax discount rate of Weiyuan Installation Company CGU alone (being key parameter and other assumptions remaining unchanged) would not result in the carrying amount of this CGU exceeding the recoverable amount as at 31 December 2019. Should the aforesaid pre-tax discount rate be increased to 14.1%, the recoverable amount in the calculation would approximate to its carrying amount.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group's equity instruments at FVTOCI represent the following equity investments in private entities established in the PRC that the Group is not able to exercise control, joint control nor significant influence according to their articles and memorandum. These investments are not held for trading, instead, they are held for long-term strategic purposes for realising their performance potential in long run. Accordingly, the Group irrevocably elects to present subsequent changes in fair value of these equity investments in OCI.

	Ownership interest	2019 RMB'000	2018 RMB'000
<b>At fair value</b>			
Sichuan Xiangjiaba Irrigation			
Construction and Development Co., Ltd.	17.5%	<b>53,883</b>	53,310
Others		<b>3,882</b>	3,963
		<b>57,765</b>	57,273

### 23. DEFERRED TAX ASSETS AND LIABILITIES

	2019 RMB'000	2018 RMB'000
Deferred tax assets	<b>29,925</b>	21,568
Deferred tax liabilities	<b>(17,776)</b>	(16,766)
	<b>12,149</b>	4,802

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

The movements in deferred tax assets (liabilities) for the years ended 31 December 2019 and 2018, without taking into account the offsetting of balances within the same tax jurisdiction, are as follows:

	ECL on trade, other receivables and contract assets <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>	FVTOCI reserve <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 2018	490	39,483	(32,374)	(2,664)	(1,115)	(9,506)	963	(4,723)
Arising from acquisition of subsidiaries	608	4,047	(15,733)	-	-	-	-	(11,078)
Credit (charge) to profit or loss	148	13,563	(3,430)	69	-	9,506	543	20,399
Credit to other comprehensive income	-	-	-	-	204	-	-	204
At 31 December 2018	1,246	57,093	(51,537)	(2,595)	(911)	-	1,506	4,802
Arising from acquisition of subsidiaries <i>(Note 38)</i>	-	-	(1,895)	-	-	-	-	(1,895)
Credit (charge) to profit or loss	202	16,165	(7,355)	68	-	-	285	9,365
Charge to other comprehensive income	-	-	-	-	(123)	-	-	(123)
At 31 December 2019	1,448	73,258	(60,787)	(2,527)	(1,034)	-	1,791	12,149

**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 right-of-use assets/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) In prior years, certain installation revenue of Jiangnan Water and Naxi Water were amortised as taxable income over 10 years after such revenue was recognised and it gave rise to deferred tax liability. Installation revenue of these two companies not yet subject to EIT in prior years have been considered as taxable income for the year ended 31 December 2018 and accordingly, the deferred tax liability thereon is fully reversed in the year ended 31 December 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 24. TRADE RECEIVABLES

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	<b>271,608</b>	131,889
Less: Allowance for credit losses	<b>(1,695)</b>	(2,661)
Total trade receivables	<b>269,913</b>	129,228

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 and installation services customers.

As at 1 January 2018, the gross carrying amount of trade receivables from contracts with customers amounted to RMB102,033,000.

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

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	<b>165,956</b>	77,388
Between 3 months and 6 months	<b>36,419</b>	20,742
Between 6 months and 12 months	<b>31,833</b>	20,201
Over 1 year	<b>35,705</b>	10,897
	<b>269,913</b>	129,228

As at 31 December 2019, included in the Group's trade receivables balance are debtors with an aggregate gross amount of RMB105,525,000 (2018: RMB52,371,000) which are past due as at the reporting date. Out of the past due balances, RMB69,062,000 (2018: RMB30,537,000) has been past due 90 days or more. Except for gross amounts aggregating to RMB1,702,000 (2018: RMB3,278,000) which is considered as in default, the remaining past due balance of RMB67,360,000 (2018: RMB27,259,000) is due from local government bureau and is not considered as default mainly because such amount mainly arose from the increase in volume of wastewater treated for the year ended 31 December 2019 that increased the governmental procedures and time for settlement by the related government bureau that is similar with previous years. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the year ended 31 December 2019 are set out in note 41(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 25. PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments for inventories	10,908	5,391
Prepayment for acquisition of a land use right	–	4,000
Other receivables	22,918	41,416
Prepaid VAT	16,428	–
Refundable security deposits for sale and leaseback arrangements ( <i>note 32(f)</i> )	5,450	–
Less: Allowance for credit losses	(2,394)	(943)
	<b>53,310</b>	49,864
Less: Amount classified as non-current assets	(14,526)	(4,000)
Current assets	<b>38,784</b>	45,864

A tender deposit of RMB20,000,000 for a wastewater treatment facility and pipeline network construction project in Leshan City Shizhong District was included in other receivables as at 31 December 2018 and the tender deposit was refunded in January 2019. Prepayment for acquisition of a land use right of RMB4,000,000 in prior years is expected to be refunded to the Group in 2020 and is included in other receivables as at 31 December 2019.

The remaining other receivables mainly include various receivables from governmental bureau for certain construction projects incurred on their behalf and various deposits paid as at 31 December 2018 and 2019.

Details of impairment assessment of other receivables for the year ended 31 December 2018 and 2019 are set out in note 41(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 26. CONTRACT ASSETS

The contract assets of the Group relate to their right to consideration for provision of construction and upgrade services on wastewater treatment infrastructure and installation services completed but yet invoiced by the Group because their right to payments are still not yet unconditional according to the relevant contracts at the end of each reporting period. The contract assets, net of credit losses, of the Group at the end of reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Provision of construction and upgrade services on wastewater treatment infrastructure ( <i>Note (a)</i> )	<b>181,203</b>	–
Provision of installation services ( <i>Note (b)</i> )	<b>20,132</b>	19,668
Less: Allowance for credit losses		
– Provision of installation services	<b>(1,923)</b>	(1,062)
	<b>199,412</b>	18,606
Less: Portion classified as non-current	<b>(181,203)</b>	–
Current portion	<b>18,209</b>	18,606

As at 1 January 2018, the Group's carrying amount of contract assets was RMB10,464,000 (allowance for credit losses, net: Nil) arose from the Group's provision of installation services.

*Notes:*

- (a) These contract assets arose from the Group's construction and upgrade services on wastewater treatment infrastructure that the Group is provided with fixed monthly payment by the relevant grantors for the service concession period with significant financing component. These contract assets will be transferred to receivables under service concession arrangements upon the completion of the construction of the relevant infrastructure. As the contract assets are not expected to be settled within one year from the end of the reporting period, the whole balance is classified as non-current.
- (b) These contract assets arose from the Group's provision of installation services and are transferred to trade receivables when such right become unconditional.

The increase in the contract assets of the Group was mainly due to acquisition of Fanxing Environment and the increase in the Group's construction and upgrade services on wastewater treatment infrastructure during the year. The Group classifies these contract assets as non-current assets because the contract assets are not expected to be settled within 12 months from the end of the reporting period.

Details of the impairment assessment are set out in Note 41(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 27. INVENTORIES

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Raw materials	<b>43,720</b>	31,718
Consumables	<b>1,631</b>	1,284
	<b>45,351</b>	33,002

### 28. BANK BALANCES AND CASH

As at 31 December 2019, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.38% (2018: from 0.01% to 1.265%) per annum.

### 29. TRADE PAYABLES

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

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 6 months	<b>42,204</b>	33,344
Between 6 months and 12 months	<b>4,463</b>	2,426
Over 1 year	<b>7,467</b>	7,645
	<b>54,134</b>	43,415

The credit period on purchases are generally within 6 months.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 30. OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Wages and welfare payable	<b>38,236</b>	35,020
Other taxes payable	<b>9,930</b>	14,363
Construction payables	<b>619,134</b>	226,510
Payables for purchases of wastewater treatment plants	<b>6,212</b>	9,386
Payables to governmental bureau	<b>65,238</b>	50,415
Interest payable on borrowings	<b>5,006</b>	–
Interest payable on bonds	<b>22,467</b>	–
Other payables	<b>27,665</b>	20,710
	<b>793,888</b>	356,404

### 31. CONTRACT LIABILITIES

The contract liabilities represents the Group's obligation to transfer goods or services to customers for which the Group has received consideration from customers in advance.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Provision of installation services - current	<b>193,023</b>	147,695
Provision of tap water supply - current	<b>32,282</b>	24,644
Sales of equipment- current	<b>1,074</b>	4,011
	<b>226,379</b>	176,350

As at 1 January 2018, the Group's contract liabilities were RMB108,676,000 and RMB11,841,000 arose from provision of installation services and tap water supply, respectively.

The contract liabilities as at 1 January and 31 December 2018 were recognised as revenue for the years ended 31 December 2018 and 2019, respectively, and those as at 31 December 2019 will be recognised as revenue for the year ending 31 December 2020.

The Group typically receives 70% to 100% of consideration from customers in advance before construction work commences. Changes of contract liabilities were mainly due to the size and number of the installation contract works that the Group has received consideration from customers in advance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32. BORROWINGS

	2019 RMB'000	2018 RMB'000
Unsecured bank borrowings without corporate guarantee (Note (a))	220,000	260,000
Unsecured bank borrowings with corporate guarantee (Note (b))	370,512	148,209
Secured bank borrowings (Note (c))	400,200	312,200
Unsecured other borrowings (Note (d))	182,698	58,025
Unsecured other borrowing with corporate guarantee (Note (e))	66,000	66,000
Secured other borrowings (Note (f))	184,163	–
	<b>1,423,573</b>	844,434
The carrying amounts repayable:		
Within one year or on demand	491,932	392,256
Within a period of more than one year but not exceeding two years	176,576	97,849
Within a period of more than two years but not more than five years	454,303	223,706
Within a period of more than five years	300,762	130,623
	<b>1,423,573</b>	844,434
Less: Amounts due within one year shown under current liabilities	<b>(491,932)</b>	(392,256)
Amounts shown under non-current liabilities	<b>931,641</b>	452,178
The Group's borrowings are analysed as:		
– At fixed rates	545,861	223,948
– At floating rates	877,712	620,486
	<b>1,423,573</b>	844,434



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32. BORROWINGS (CONTINUED)

Notes:

- (a) As at 31 December 2018, included in the unsecured bank borrowings are bank borrowings of RMB80,000,000 bearing interest at fixed rates ranging from 3.99% to 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates of 4.79% per annum. These bank borrowings are repayable from January 2019 to December 2019.

As at 31 December 2019, the unsecured bank borrowings are bank borrowings of RMB220,000,000 bearing interest at floating rates ranging from 4.73% to 4.96% per annum. These bank borrowings are repayable from January 2020 to December 2020.

- (b) As at 31 December 2018, the unsecured bank borrowings bear interest at floating rates of 4.79% to 5.78% per annum and are repayable by instalments from March 2019 to November 2033. Their repayments are guaranteed by the group companies.

As at 31 December 2019, included in the unsecured bank borrowings are bank borrowings of RMB47,000,000 bearing interest at a fixed rate of 7.50% per annum, the remaining unsecured bank borrowings bear interest at floating rates of 4.57% to 5.78% per annum. These unsecured bank borrowings are repayable from March 2020 to December 2035 and their repayments are guaranteed by the group companies.

- (c) (i) As at 31 December 2018, the bank borrowings are comprised of the following:
- Bank borrowings of RMB126,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from May 2019 to May 2024. The repayment of the bank borrowings are guaranteed by the group companies.
  - A bank borrowing of RMB98,700,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 5.88% per annum and is repayable by instalments from June 2019 to April 2027.
  - Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.
  - Bank borrowings of RMB16,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments from December 2019 to December 2020.
  - Bank borrowings of RMB65,500,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 5.64% per annum and are repayable by instalments from June 2020 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 32. BORROWINGS (CONTINUED)

*Notes: (Continued)*

- (c) (ii) As at 31 December 2019, the bank borrowings are comprised of the following:
- Bank borrowings of RMB110,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from May 2020 to May 2024. The repayment of the bank borrowings are guaranteed by the group companies.
  - A bank borrowing of RMB115,700,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 5.88% per annum and is repayable by instalments from June 2020 to April 2027.
  - Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.
  - Bank borrowings of RMB15,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before December 2020.
  - Bank borrowings of RMB43,500,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 5.64% per annum and are repayable by instalments from June 2020 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
  - Bank borrowings of RMB45,000,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from June 2020 to January 2026. The repayment of the bank borrowings are guaranteed by Xinglu Investment.
  - Bank borrowings of RMB65,000,000 are secured by the Group's equity in Fanxing Environmental, bear interest at a floating rate of 5.28% per annum and are repayable by instalments from June 2020 to August 2026. The repayment of the bank borrowings are guaranteed by the group companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32. BORROWINGS (CONTINUED)

*Notes: (Continued)*

- (d) (i) As at 31 December 2018, the other borrowings are comprised of the following:
- A loan of RMB2,077,000 from The World Bank for financing the Group's construction of tap water supply infrastructure, bears interest at floating rates ranging from 1.11% to 2.02% per annum and is repayable by instalments till May 2021.
  - A loan of RMB2,250,000 is from a non-controlling equity owner of a subsidiary, non-interest bearing and repayable on demand.
  - Other loans of RMB53,698,000 from independent third parties bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.
- (ii) As at 31 December 2019, the Group repaid the loan from The World Bank in advance, the other borrowings are comprised of the following:
- Other borrowings of RMB52,698,000 from independent third parties bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.
  - A loan of RMB130,000,000 is from local governmental bureau, bears interest at fixed rate of 3.41% per annum and is repayable on March 2026.
- (e) The other borrowing represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., bears interest at a fixed rate of 1.20% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.
- (f) On 28 January 2019, the Group entered into a sale and leaseback arrangement of certain tap water supply infrastructure, with a carrying amount of RMB248,862,000, with a financial institution for a consideration of RMB200,000,000. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale, accordingly, the transfer proceeds of RMB193,400,000 (net of issue costs of RMB6,600,000) is accounted for as borrowing within the scope of IFRS 9. As at 31 December 2019, the borrowing is secured by certain tap water supply infrastructure and a refundable security deposit of RMB5,000,000 (note 25) of the Group, bears interest at a fixed nominal rate of 4.28% per annum and is repayable by instalments from January 2020 to April 2024.

On 23 December 2019, the Group entered into another sale and leaseback arrangement of certain wastewater treatment infrastructure, with a carrying amount of RMB114,390,200, with a financial institution for a consideration of RMB100 million. The Group withdrew RMB30,000,000 on 24 December 2019. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale accordingly, the transfer proceeds of RMB29,130,000 (net of issue costs of RMB870,000) is accounted for as borrowing within the scope of IFRS 9. As at 31 December 2019, the borrowing is secured by certain wastewater treatment infrastructure and a refundable security deposit of RMB450,000 (note 25) of the Group, bears interest at a fixed nominal rate of 4.28% per annum and is repayable by instalments from January 2020 to December 2024.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 33. DEFERRED INCOME – GOVERNMENT GRANTS

The deferred income represents government subsidies granted to the Group for subsidising its construction of wastewater treatment plants and tap water supply network.

### 34. LEASE LIABILITIES

	<b>2019</b>
	<i>RMB'000</i>
<b>Lease liabilities payable:</b>	
Within one year	37
Within a period of more than one year but not more than two years	34
Within a period of more than two years but not more than five years	12
	83
Less: Amount due for settlement within 12 months shown under current liabilities	(37)
Amount due for settlement after 12 months shown under non-current liabilities	46

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 35. PROVISIONS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	<b>230,933</b>	160,565
Provisions from acquisition a subsidiary	–	16,187
Provisions recognised	<b>56,111</b>	51,149
Unwinding of the discount	<b>10,924</b>	7,291
Payments	<b>(530)</b>	(4,259)
At 31 December	<b>297,438</b>	230,933
Less: Amount classified as current liabilities	<b>(3,657)</b>	(1,769)
Non-current portion	<b>293,781</b>	229,164

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 2019 is 4.90% (2018: 4.90%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 36. BONDS PAYABLE

On 26 April 2019, the Company issued the first tranche of the corporate bonds in the principal amount of RMB500,000,000 (with issue cost of RMB2,450,000), which are unsecured, will mature in April 2024 and have a coupon rate of 5.99% per annum. On 23 September 2019, the Company issued the second tranche of the corporate bonds in the principal amount of RMB200,000,000 (with issue cost of RMB980,000), which are unsecured, will mature in September 2024 and have a coupon rate of 5.00% per annum. The Company has a right to adjust the coupon rate of the corporate bonds upward or downward in April 2022 and September 2022 while the corporate bond holders have a right to require the Company to redeem their corporate bonds at the principal amount with accrued interest in whole or in part in April 2022 and September 2022, respectively. The corporate bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, and are listed on The Shanghai Stock Exchange with an aggregate fair value of approximately RMB700 million as at 31 December 2019.

The movement of the liability component of the bonds payable for the period is set out as below:

	<b>First tranche</b>	<b>Second tranche</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Principal amounts	500,000	200,000	700,000
Less: Issue costs	(2,450)	(980)	(3,430)
Net proceeds upon issuance	497,550	199,020	696,570
Interest accrued for in the year	20,252	2,543	22,795
Interest payable included in other payables	(19,967)	(2,500)	(22,467)
<b>At 31 December 2019</b>	<b>497,835</b>	<b>199,063</b>	<b>696,898</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 37. SHARE CAPITAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At beginning and end of the year	<b>859,710</b>	859,710
	<b>'000</b>	<b>'000</b>
Shares of RMB1 each		
– Domestic shares	<b>644,770</b>	644,770
– H shares	<b>214,940</b>	214,940
	<b>859,710</b>	859,710

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.

### 38. ACQUISITION OF A SUBSIDIARY

#### Acquisition of Fanxing Environmental

In February 2019, the Company entered into an equity transfer agreement with certain government-related entities dated 27 February 2019, pursuant to which, the Company acquired 92.5% equity interest in Fanxing Environmental for a cash consideration of RMB117,000,000. This acquisition has been accounted for using the acquisition method. No goodwill was recognised as a result of the acquisition. Fanxing Environmental is engaged in provision of wastewater treatment service and has 4 exclusive concession rights for the provision of wastewater treatment service in the Luzhou Rural Area and Gulin County Rural Area. Fanxing Environmental was acquired so as to continue the expansion of the Group's wastewater treatment operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 38. ACQUISITION OF A SUBSIDIARY (CONTINUED)

#### Acquisition of Fanxing Environmental (Continued)

##### *Assets acquired and liabilities recognised at the date of acquisition*

The fair values of identifiable assets and liabilities of Fanxing Environmental acquired at the date of obtaining control are as follows:

	<i>RMB'000</i>
Bank balances and cash	12,230
Trade receivables	2,107
Other receivables	159
An amount due from the Group	1,000
Inventories	40
Contract assets	189,995
Property, plant and equipment	1,393
Receivables under service concession arrangements	54,124
Intangible assets	7,579
Trade payables	(426)
Other payables	(62,021)
Borrowings	(78,000)
Tax liabilities	(28)
Deferred tax liabilities	(1,895)
	126,257

In the opinion of the Directors, the aggregate fair value of trade receivables, other receivables and an amount due from the Group at the date of acquisition amounted to RMB3,266,000. The gross contractual amounts of such trade receivables, other receivables and an amount due from the Group acquired amounted to RMB3,266,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows are expected to be collected amounted to RMB3,266,000.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 38. ACQUISITION OF A SUBSIDIARY (CONTINUED)

#### Acquisition of Fanxing Environmental (Continued)

##### *Non-controlling interests*

The non-controlling interest (7.5%) in Fanxing Environmental recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Fanxing Environmental at the date of acquisition and amounted to RMB9,257,000.

	<i>RMB'000</i>
Consideration transferred, satisfied by cash	117,000
Add: Non-controlling interests	9,257
Less: Net assets acquired	126,257
	—

##### *Net cash outflow arising on acquisition*

	<i>RMB'000</i>
Analysis of outflow of cash and cash equivalents in respect of acquisition of Fanxing Environmental:	
Cash paid	(117,000)
Bank balances and cash acquired	12,230
Net cash outflow arising on acquisition	(104,770)

Acquisition-related costs amounting to RMB453,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the “administrative expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

Included in the Group’s profit for the year and revenue for the year ended 31 December 2019 are RMB11,006,000 and RMB28,901,000 respectively, attributable to Fanxing Environmental.

Had the acquisition been completed on 1 January 2019, total Group’s revenue for year would have been RMB2,067,638,000 and profit for the year would have been RMB201,810,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 39. 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
		2019	2018		
Beijiao Water	25 March 2004	98.42%	98.42%	RMB43,909,360	Provision of tap water supply and related construction and upgrade services
Hejiang Water	26 April 1999	85.93%	85.93%	RMB8,639,500	Provision of tap water supply, installation and related construction and upgrade services
Jiangnan Water	7 March 2003	100.00%	100.00%	RMB6,520,000	Provision of tap water supply, installation and related construction and upgrade services
Naxi Water	17 March 2003	100.00%	100.00%	RMB4,380,000	Provision of tap water supply, installation and related construction and upgrade services
Nanjiao Water	18 September 2002	99.53%	99.53%	RMB9,766,000	Provision of tap water supply and related construction and upgrade services
Sitong Engineering	2 September 2002	100.00%	100.00%	RMB5,010,000	Provision of engineering construction service
Sitong Design	6 September 2002	99.82%	99.82%	RMB500,000	Provision of water supply and drainage design service
Xinglu Wastewater Treatment	11 December 2000	98.00%	98.00%	RMB268,408,200	Provision of wastewater treatment services and related construction and upgrade services
Luzhou Water Crystal Mall	23 February 1996	100.00%	100.00%	RMB520,000	Sale of materials
Xinghe Water *	29 August 2018	51.00%	51.00%	RMB55,102,000	Provision of wastewater treatment services and related construction and upgrade services
Weiyuan Qingxi Water	30 December 2004	60.00%	60.00%	RMB17,600,000	Provision of tap water supply, installation and related construction and upgrade services
Weiyuan Installation Company	5 November 2007	60.00%	60.00%	RMB5,000,000	Provision of engineering construction service
瀘州市興瀘水務(集團)興敘水業有限公司(Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	9 October 2018	60.00%	60.00%	RMB10,000,000	Provision of tap water supply, installation and related construction and upgrade services
Leshan Xingjia	28 December 2018	95.00%	95.00%	RMB38,404,100	Provision of wastewater treatment service and related construction and upgrade services
Fanxing Environmental	18 August 2016	92.50%	N/A	RMB119,946,400	Provision of wastewater treatment service and related construction and upgrade services
Yongxing Water *	31 July 2019	55.00%	N/A	RMB3,000,000	Provision of wastewater treatment service

\* Except for Xinghe Water and Yongxing Water, all the above subsidiaries are directly held by the Company.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

Name of subsidiary	Proportion ownership interest held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	At 31 December		Year ended 31 December		At 31 December	
	2019	2018	2019	2018	2019	2018
	%	%	RMB'000	RMB'000	RMB'000	RMB'000
Beijiao Water	1.58	1.58	40	281	1,864	1,824
Hejiang Water	14.07	14.07	2,638	1,539	24,953	8,244
Jiangnan Water	-	-	-	6,342	-	-
Naxi Water	-	-	-	(134)	-	-
Xinglu Wastewater Treatment	2.00	2.00	1,460	1,429	13,999	13,339
Xinghe Water	49.00	49.00	2,217	946	24,622	27,946
Weiyuan Qingxi Water	40.00	40.00	1,953	1,338	17,889	15,936
Weiyuan Installation Company	40.00	40.00	1,750	228	7,300	5,550
Leshan Xingjia	5.00	5.00	-	-	1,920	-
Fanxing Environmental	7.50	N/A	814	N/A	10,071	N/A
Individually immaterial subsidiaries with non-controlling interests			60	1,208	5,448	4,037
			10,932	13,177	108,066	76,876

#### Changes in ownership interest in subsidiaries

In 2018, the Company acquired additional 11.64% equity interest in Beijiao Water, 50.04% equity interest in Jiangnan Water, 23.36% equity interest in Naxi Water, 53.74% equity interest in Nanjiao Water, 20.62% equity interest in Sitong Engineering and 32.44% equity interest in Sitong Design from their non-controlling interests for cash consideration of RMB16,050,000, RMB29,528,000, RMB7,049,000, RMB15,482,000, RMB2,417,000 and RMB607,000, respectively.

Summarised financial information (prepared in accordance with IFRSs) in respect of each of the Group's subsidiaries that have significant non-controlling interests as at 31 December 2019 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 2019

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

#### Hejiang Water

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<b>128,138</b>	54,445
Non-current assets	<b>261,391</b>	160,210
Current liabilities	<b>55,577</b>	48,136
Non-current liabilities	<b>156,611</b>	22,000
Equity attributable to owners of the Company	<b>152,388</b>	136,275
Non-controlling interests	<b>24,953</b>	8,244

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Hejiang Water (Continued)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	<b>155,797</b>	109,506
Expenses	<b>(137,046)</b>	(98,571)
Profit and total comprehensive income for the year	<b>18,751</b>	10,935
Profit and total comprehensive income attributable to owners of the Company	<b>16,113</b>	9,396
Profit and total comprehensive income attributable to non-controlling interests	<b>2,638</b>	1,539
Dividends paid to non-controlling interests	-	97
Net cash inflow from operating activities	<b>21,314</b>	9,296
Net cash outflow from investing activities	<b>(103,118)</b>	(70,745)
Net cash inflow from financing activities	<b>153,003</b>	90,251
Net cash inflow	<b>71,199</b>	28,802

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Xinglu Wastewater Treatment and its subsidiary (Xinghe Water)

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Consolidated:		
Current assets	<b>306,419</b>	219,918
Non-current assets	<b>1,165,351</b>	1,047,949
Current liabilities	<b>166,727</b>	143,336
Non-current liabilities	<b>580,708</b>	429,644
Equity attributable to owners of the Company	<b>685,714</b>	653,602
Non-controlling interests of Xinglu Wastewater Treatment	<b>13,999</b>	13,339
Non-controlling interests of Xinghe Water	<b>24,622</b>	27,946

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Xinglu Wastewater Treatment and its subsidiary (Xinghe Water) (Continued)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Consolidated:		
Revenue	<b>440,342</b>	342,526
Expenses	<b>(365,353)</b>	(270,118)
Profit and total comprehensive income for the year	<b>74,989</b>	72,408
Profit and total comprehensive income attributable to owners of the Company	<b>71,312</b>	70,033
Profit and total comprehensive income attributable to non-controlling interests of Xinglu Wastewater Treatment	<b>1,460</b>	1,429
Profit and total comprehensive income attributable to non-controlling interests of Xinghe Water	<b>2,217</b>	946
Dividends paid to non-controlling interests of Xinglu Wastewater Treatment	<b>800</b>	1,000
Consolidated:		
Net cash inflow from operating activities	<b>61,123</b>	168,215
Net cash outflow from investing activities	<b>(167,065)</b>	(56,412)
Net cash inflow (outflow) from financing activities	<b>92,136</b>	(120,189)
Net cash outflow	<b>(13,806)</b>	(8,386)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Weiyuan Qingxi Water

	<b>2019</b> <i>RMB'000</i>	2018 <i>RMB'000</i>
Current assets	<b>37,718</b>	21,613
Non-current assets	<b>177,751</b>	187,296
Current liabilities	<b>139,509</b>	117,538
Non-current liabilities	<b>31,237</b>	51,530
Equity attributable to owners of the Company	<b>26,834</b>	23,905
Non-controlling interests	<b>17,889</b>	15,936



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Weiyuan Qingxi Water (Continued)

	<b>2019</b> <i>RMB'000</i>	For the period from 21 September (date of acquisition) to 31 December 2018 <i>RMB'000</i>
Revenue	<b>41,091</b>	10,575
Expenses	<b>(36,209)</b>	(7,230)
Profit and total comprehensive income for the year	<b>4,882</b>	3,345
Profit and total comprehensive income attributable to owners of the Company	<b>2,929</b>	2,007
Profit and total comprehensive income attributable to non-controlling interests	<b>1,953</b>	1,338
Net cash inflow from operating activities	<b>4,605</b>	18,257
Net cash outflow from investing activities	<b>(1,141)</b>	(7,827)
Net cash inflow (outflow) from financing activities	<b>5,839</b>	(10,164)
Net cash inflow	<b>9,303</b>	266

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 40. 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 and bonds payable disclosed in notes 32 and 36, respectively, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, FVTOCI reserve, capital reserve, 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:

	2019 RMB'000	2018 RMB'000
Debts ( <i>note 1</i> )	2,120,471	844,434
Less: Bank balances and cash	(1,095,877)	(547,681)
Net debts	1,024,594	296,753
Total equity ( <i>note 2</i> )	2,127,478	1,956,911
Net debts to equity ratio	48.2%	15.2%

#### Notes:

1. Debts comprise long-term and short-term borrowings as detailed in note 32 and bonds payable as detailed in note 36.
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 2019

### 41. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Financial assets</b>		
Financial assets at amortised cost	<b>2,560,907</b>	1,568,373
Equity instruments at FVTOCI	<b>57,765</b>	57,273
<b>Financial liabilities</b>		
Amortised cost	<b>2,958,563</b>	1,229,890

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

The Group's major financial instruments include receivables under service concession arrangements, equity instruments at FVTOCI, trade and other receivables, bank balances and cash, trade and other payables, borrowings and bonds payable. 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 credit risk and the liquidity 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### (i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, bonds payable and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to bank balances and borrowings bearing at floating rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing 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.

As interest rates of bank balances remained fixed for the past years and unlikely fluctuate significantly in the future, based on historical experience and management's expectation. In the opinion of the Directors, the cash flow interest risk on bank balances is considered insignificant.

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Decrease in post-tax profit	585	444

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### (ii) 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 Hong Kong Dollars 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:

	2019 RMB'000	2018 RMB'000
Borrowings – US\$	–	(2,077)
Bank balances – HK\$	1,232	3,178

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 borrowing and bank balances as adjusted for five percent appreciation of US\$ and HK\$ at the end of the reporting period.

	2019 RMB'000	2018 RMB'000
Increase in post-tax profit	52	47

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment*

As at 31 December 2019, 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.

##### *Trade receivables and contract assets (attributable to provision for installation services)*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. The Group generally grants credit period of 1 month to its tap water supply customers upon consumption of water, 3 months to its installation customers and 3 months to its wastewater treatment customers, respectively. Besides, the credit period and recoverability of the existing customers are reviewed by the management of the Group regularly. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Directors assessed the allowance for credit losses of trade receivables and contract assets arising from contracts with customers as follows:

##### *Trade receivables arising from tap water supply*

The Group applies a provision matrix based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables of customers (mainly residents, corporations and local governmental bureau) arising from tap water supply and adjusted for forward-looking information that is available without undue cost or effort to assess the allowance for credit losses for such trade receivables of gross amount of RMB87,318,000 at 31 December 2019 (2018: RMB45,343,000), because such trade receivables are characterised as a large number of customers with insignificant amounts and similar credit risk; and no lifetime ECL was made for such trade receivables as at 31 December 2018 and 2019 in relation to the Group's tap water supply operation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Trade receivables and contract assets (attributable to provision for installation services) (Continued)*

###### *Trade receivables arising from wastewater treatment*

The Group applies individual assessment based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables of customers (local governmental bureau) arising from wastewater treatment and adjusted for forward-looking information that is available without undue cost or effort to assess the allowance for credit losses for its trade receivables of gross amount of RMB172,820,000 at 31 December 2019 (2018: RMB70,098,000); and no lifetime ECL was made for trade receivables as at 31 December 2018 and 2019 in relation to its wastewater treatment operation.

###### *Trade receivables and contract assets arising from installation services*

The Group applies individual assessment based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables and contract assets attributable to provision for installation services of customers (mainly residents, corporations and local governmental bureau) and adjusted for forward-looking information that is available without undue cost or effort to assess the allowance for credit losses for its trade receivables of gross amount of RMB11,470,000 (2018: RMB16,448,000) and contract assets of gross amount of RMB20,132,000 (2018: RMB19,668,000) at 31 December 2019 in relation to its installation services operation; and lifetime ECL of RMB1,695,000 and RMB1,923,000 (2018: RMB2,661,000 and RMB1,062,000) were made for trade receivables and contract assets, respectively.

###### *Receivables under service concession arrangements*

The Group has individually assessed allowance for credit losses for its receivables under service concession arrangements as at 31 December 2018 and 2019 and ECL is estimated based on internal credit rating, their ageing, historical observed default rates over the expected life of receivables under service concession arrangements of the Grantors and adjusted for forward-looking information that is available without undue cost or effort. In the opinion of the Directors, there has been no significant increase in credit risk in the Group's receivables under service concession arrangements of gross amount of RMB1,169,143,000 at 31 December 2019 (2018: RMB850,991,000), since their initial recognition and the 12m ECL on the Group's receivables under service concession arrangements as at 31 December 2018 and 2019 is not material.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Contract assets attributable to provision for construction and upgrade services on wastewater treatment infrastructure*

The Group has individually assessed allowance for credit losses for its non-current contract assets attributable to provision for construction and upgrade services on wastewater treatment infrastructure at 31 December 2018 and 2019 and ECL is estimated based on internal credit rating, their ageing, historical observed default rates over the expected life of non-current contract assets attributable to the provision for construction and upgrade services on wastewater treatment infrastructure and adjusted for forward-looking information that is available without undue cost or effort. In the opinion of the Directors, there has been no significant increase in credit risk in the Group's non-current contract assets of gross amount of RMB181,203,000 at 31 December 2019 (2018: Nil), since their initial recognition and the 12m ECL on the Group's non-current contract assets as at 31 December 2018 and 2019 is not material.

##### *Other receivables*

The Group has individually assessed the allowance for credit losses for its other receivables of gross amount of RMB28,368,000 (2018: RMB41,416,000) at 31 December 2019 based on internal credit rating, customers' ageing and historical observed default rates over the expected life of the other receivables and are adjusted for forward-looking information that is available without undue costs or effort. In the opinion of the Directors, they have no significant increase in credit risk since initial recognition. 12m ECL of RMB539,000 (2018: RMB943,000) and lifetime ECL of RMB1,855,000 (2018: Nil) were made for other receivables as at 31 December 2019.

##### *Bank balances*

The Group assesses that its bank balances are at low credit risk because they are placed with reputable banks with good internal credit rating and/or external credit rating, if available, and no recognition of 12m ECL as at 31 December 2018 and 2019 is considered necessary.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Bank balances (Continued)*

For assessment of the ECL of the Group's financial assets, the Group's internal credit risk grading assessment comprises the following categories:

<b>Internal credit rating</b>	<b>Description</b>	<b>Trade receivables/ Current contract assets</b>	<b>Other receivables/ Bank balances/ Receivables under service concession arrangements/ Non-current contract assets</b>
Level 1	The counterparty has great ability of repayment, low risk of default and has no history of impairment loss.	Lifetime ECL-not credit-impaired.	12m ECL
Level 2	The counterparty has good ability of repayment, which may be influenced by macro environment and economic situation.	Lifetime ECL-not credit-impaired	12m ECL
Level 3	The counterparty has enough ability of repayment, but settles after due date infrequently.	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired
Level 4	The counterparty has rare ability of repayment and there is potential chance of default.	Lifetime ECL-credit-impaired	Lifetime ECL-credit-impaired
Level 5	The counterparty has no ability to repay its debts and the receivable is not expected to be collectable.	Amount is written off	Amount is written off

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Bank balances (Continued)*

The tables below detail the credit risk exposures of the Group's trade receivables, contract assets, receivables under service concession arrangements, other receivables and bank balances, which are subject to ECL assessment:

Items	Internal credit rating	12m or lifetime ECL	2019		2018	
			Gross carrying amount		Gross carrying amount	
			RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables		Lifetime ECL				
– tap water supply	Level 1	– Not credit-impaired	45,022			–
	Level 3	– Not credit-impaired	42,296	87,318		45,343
Trade receivables	Level 1	Lifetime ECL				
– wastewater treatment		– Not credit-impaired		172,820		70,098
Trade receivables	Note (i)	Lifetime ECL				
– installation services		– Not credit-impaired	9,768		13,170	
		– Credit-impaired	1,702	11,470	3,278	16,448
				271,608		131,889
Contract assets	Note (ii)	Lifetime ECL				
– installation services		– Not credit-impaired	18,800		19,668	
		– Credit-impaired	1,332	20,132	–	19,668
Contract assets attributable to construction and upgrade services of wastewater treatment infrastructure	Level 1	12m ECL		181,203		–
				201,335		19,668
Receivables under service concession arrangements	Level 1	12m ECL		1,169,143		850,991
Other receivables	Note (iii)	12m ECL	25,942		41,416	
		Lifetime ECL				
		– Credit-impaired	2,426	28,368	–	41,416
Bank balances	Level 1	12m ECL		1,095,859		547,663

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Bank balances (Continued)*

Notes:

- (i) Trade receivables in relation to its installation services operation are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount <i>RMB'000</i>	ECL <i>RMB'000</i>
As at 31 December 2019			
Level 1	0.18%	2,315	4
Level 2	2.10%	6,643	140
Level 3	13.89%	810	113
Level 4	84.49%	1,702	1,438
		<b>11,470</b>	<b>1,695</b>
As at 31 December 2018			
Level 1	0.08%	10,168	8
Level 2	2.00%	2,799	56
Level 3	13.79%	203	28
Level 4	78.37%	3,278	2,569
		<b>16,448</b>	<b>2,661</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Bank balances (Continued)*

Notes: (Continued)

- (ii) Contract assets attributable to provision for installation services are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount <i>RMB'000</i>	ECL <i>RMB'000</i>
As at 31 December 2019			
Level 1	0.10%	2,797	3
Level 2	2.39%	11,712	280
Level 3	14.03%	4,291	602
Level 4	77.93%	1,332	1,038
		<b>20,132</b>	<b>1,923</b>
As at 31 December 2018			
Level 1	0.06%	10,171	6
Level 2	2.12%	2,306	49
Level 3	14.00%	7,191	1,007
		<b>19,668</b>	<b>1,062</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Bank balances (Continued)*

Notes: (Continued)

(iii) Other receivables are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount <i>RMB'000</i>	ECL <i>RMB'000</i>
As at 31 December 2019			
Level 1	0.50%	19,856	100
Level 2	2.40%	2,530	61
Level 3	10.63%	3,556	378
Level 4	76.46%	2,426	1,855
		<b>28,368</b>	<b>2,394</b>
As at 31 December 2018			
Level 1	0.06%	32,277	19
Level 2	2.07%	387	8
Level 3	10.47%	8,752	916
		41,416	943

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Bank balances (Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets and 12m ECL that has been recognised for other receivables:

	Trade receivables		Contract assets		Other receivables		Total
	Lifetime ECL (credit-impaired) RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	12m ECL (not credit-impaired) RMB'000	
<b>Balances as at</b>							
<b>1 January 2018</b>	1,595	9	-	-	-	1,592	3,196
Credit losses recognised	1,575	83	-	1,062	-	475	3,195
Credit losses reversed	(601)	-	-	-	-	(1,124)	(1,725)
<b>Balances as at</b>							
<b>31 December 2018</b>	2,569	92	-	1,062	-	943	4,666
Credit losses recognised	772	257	1,038	885	1,418	591	4,961
Credit losses transferred	-	1,062	-	(1,062)	437	(437)	-
Credit losses reversed	(1,903)	(1,154)	-	-	-	(558)	(3,615)
<b>Balances as at</b>							
<b>31 December 2019</b>	1,438	257	1,038	885	1,855	539	6,012

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Liquidity risk*

As disclosed in note 2, the Group had net current liabilities of RMB73,490,000 (2018: RMB194,414,000) as at 31 December 2019. In the opinion of the Directors, the financial information has been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations and the current banking facilities available to the Group as at 31 December 2019. 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 will consider to obtain additional banking borrowings, bonds payable or additional capital. Details of the bank borrowings, bonds payable and capital of the Group during the year have been set out in notes 32, note 36 and 37, respectively.

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 2019</b>							
Borrowings							
– Fixed rates	4.37%	114,827	70,176	83,930	344,087	613,020	545,861
– Variable rates	5.18%	150,623	205,320	134,251	538,264	1,028,458	877,712
Bonds payable – Fixed rates	5.11%-6.11%	20,285	20,294	40,617	796,087	877,283	696,898
Trade and other payables	-	835,592	2,500	-	-	838,092	838,092
		1,121,327	298,290	258,798	1,678,438	3,356,853	2,958,563
Lease liabilities	4.49%	-	41	38	15	94	83
<b>At 31 December 2018</b>							
Borrowings							
– Fixed rates	4.49%	108,200	32,565	22,773	74,411	237,949	223,948
– Variable rates	5.03%	87,317	194,668	95,460	326,030	703,475	620,486
Trade and other payables	-	385,456	-	-	-	385,456	385,456
		580,973	227,233	118,233	400,441	1,326,880	1,229,890

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

## 41. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Fair Value Measurements of Financial Instruments

Some of the financial assets are measured at fair value for financial reporting purposes. This note provides information about how the Group determines the fair values of these financial assets.

In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the Directors semi-annually to explain the cause of fluctuations in the fair value of the assets.

Information about the valuation techniques and inputs used in determining the fair values of various financial assets are disclosed below.

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2019	31 December 2018		
Unquoted equity investments	17.51% of equity investment in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB53,883,000	17.51% of equity investment in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB53,310,000	Level 3	Based on adjusted net assets value of the investment. <i>(Note 1)</i>
Unquoted equity investments	0.01% of equity investment in Sichuan Tianhua Inc. – RMB22,000	0.01% of equity investment in Sichuan Tianhua Inc. – RMB153,000	Level 3	Based on adjusted net asset value of the investment. <i>(Note 1)</i>
Unquoted equity investments	0.03% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB3,860,000	0.04% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB3,810,000	Level 3	Based on price book ratio of comparative companies with key inputs, such as price book ratios of comparative companies, estimated market liquidity, etc. <i>(Note 2)</i>

#### Notes:

1. An increase in the adjusted net asset value of such investment used in isolation would result in an increase in the fair value of the equity investment, and vice versa.
2. An increase in 5% of price book ratio used in isolation would result in an increase of RMB193,000 (2018: RMB190,000) in the fair value of the equity investment as at 31 December 2019, and vice versa.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 41. FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Fair Value Measurements of Financial Instruments (Continued)

(ii) *Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis*

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.

(iii) *Reconciliation of Level 3 fair value measurements of financial assets*

	<b>Unlisted equity investments</b> <i>RMB'000</i>
At 1 January 2018, upon initial application of IFRS 9	58,091
Net fair value loss recognised in other comprehensive expense	(818)
At 31 December 2018	57,273
Net fair value gain recognised in other comprehensive income	492
At 31 December 2019	57,765

Net fair value loss in other comprehensive expense related to equity instruments at FVTOCI held at the end of the current reporting period is reported as change in "FVTOCI reserve".

### 42. OPERATING LEASES

#### The Group as lessee

Rental expense borne by the Group was RMB461,000 for the year ended 31 December 2018.

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<i>RMB'000</i>
Within one year	92
In the second to fifth years, inclusive	24
	116

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 42. OPERATING LEASES (CONTINUED)

#### The Group as lessor

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

As at 31 December 2019, minimum lease payments receivable on leases are as follows:

	2019 <i>RMB'000</i>
Within one year	271
In the second year	219
In the third year	16
In the fourth year	7
In the fifth year	7
After five years	12
	<b>532</b>

As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	2018 <i>RMB'000</i>
Within one year	254
In the second to fifth years, inclusive	458
More than five years	19
	<b>731</b>

### 43. CAPITAL COMMITMENTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Capital expenditure contracted but not provided for: construction and upgrading infrastructure	<b>895,218</b>	763,897

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 44. 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>	<b>Bonds payable</b> <i>RMB'000</i>	<b>Lease liabilities</b> <i>RMB'000</i>	<b>Dividends</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2019	844,434	–	47	–	844,481
Financing cash flows	502,323	696,570	(39)	(52,383)	1,146,471
Dividend declared	–	–	–	52,383	52,383
Borrowings of Fanxing Environmental acquired at the acquisition date ( <i>Note 38</i> )	78,000	–	–	–	78,000
Interest recognised	–	328	1	–	329
New leases entered	–	–	74	–	74
Foreign exchange translation	(184)	–	–	–	(184)
Due to Fanxing Environmental eliminated at the acquisition date	(1,000)	–	–	–	(1,000)
<b>At 31 December 2019</b>	<b>1,423,573</b>	<b>696,898</b>	<b>83</b>	<b>–</b>	<b>2,120,554</b>
At 1 January 2018	602,759	–	–	–	602,759
Financing cash flows	164,519	–	–	(70,767)	93,752
Dividend declared	–	–	–	70,767	70,767
Borrowings of Weiyuan Qingxi Water acquired at the acquisition date	76,698	–	–	–	76,698
Foreign exchange translation	458	–	–	–	458
At 31 December 2018	844,434	–	–	–	844,434

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 45. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group recorded an addition to intangible assets of RMB3,962,000 and an increase in receivables under service concession arrangements of RMB23,038,000 which arose from contribution of certain wastewater treatment infrastructure of RMB27,000,000 to a subsidiary of the Company by a non-controlling equity owner, that is a non-cash transaction.

During the year ended 31 December 2019, the aforesaid wastewater treatment infrastructure was appraised at a value of RMB21,459,000 that resulted in a reduction of paid-up registered capital of that subsidiary contributed by the non-controlling equity owner as agreed by both the Company and the non-controlling equity owner and adjustments were made to decrease intangible assets by RMB925,000, receivables under service concession arrangements by RMB4,616,000 and non-controlling interests by RMB5,541,000.

### 46. 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 service, 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. Besides, the Group has established its pricing strategy and approval process for purchase and sales of goods, investment and service. 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 acquisition as disclosed in note 38 and the transactions with Luzhou Laojiao Group Co., Ltd. (“Luzhou Laojiao”) (which is controlled by the PRC government) and the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 46. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Related party	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Tap water supply income			
– Xinglu Investment	An immediate holding company	13	20
– Luzhou Laojiao	A shareholder	157	–
– Other companies	Fellow subsidiaries	3,528	3,500
Installation service income received			
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	Fellow subsidiary	2,224	8,473
– Luzhou Lingang Investments Group Co., Ltd.	Fellow subsidiary	13,226	–
– Other companies	Fellow subsidiaries	1,289	810
Water quality testing income	Fellow subsidiaries	4	163
Property management fees	A fellow subsidiary	(4,598)	(3,055)
Garbage collection service income	Fellow subsidiaries	436	806
Raw material procurement	A fellow subsidiary	(4,751)	–

The above transactions with related parties also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were conducted in accordance with the terms of relevant agreements.

In addition, during the years ended 31 December 2019 and 2018, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 46. RELATED PARTY TRANSACTIONS (CONTINUED)

#### 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Short-term benefits	5,200	4,129

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Non-current Assets</b>		
Property, plant and equipment	16,555	17,266
Right-of-use assets	11,469	–
Prepaid lease payments	–	11,392
Intangible assets	1,825,574	1,207,217
Equity instruments at fair value through other comprehensive income	57,765	57,273
Prepayment and other receivables	5,000	4,000
Investments in subsidiaries	934,654	781,170
Deferred tax assets	8,519	6,942
	<b>2,859,536</b>	2,085,260
<b>Current Assets</b>		
Inventories	28,191	16,935
Trade receivables	62,853	31,794
Prepayments and other receivables	11,591	28,776
Contract assets	17,330	18,154
Prepaid lease payments	–	260
Amounts due from subsidiaries	50,134	28,839
Bank balances and cash	704,842	285,540
	<b>874,941</b>	410,298

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<b>Current Liabilities</b>		
Trade payables	42,243	35,638
Other payables	366,248	159,875
Tax liabilities	1,997	8,848
Borrowings	315,070	283,603
Lease liabilities	12	–
Provisions	1,001	471
Contract liabilities	181,726	138,428
	<b>908,297</b>	626,863
<b>Net Current Liabilities</b>	<b>(33,356)</b>	(216,565)
<b>Total Assets Less Current Liabilities</b>	<b>2,826,180</b>	1,868,695
<b>Capital and Reserves</b>		
Share capital	859,710	859,710
Reserves	748,886	682,137
<b>Total Equity</b>	<b>1,608,596</b>	1,541,847
<b>Non-current Liabilities</b>		
Borrowings	429,831	254,202
Lease liabilities	9	–
Provisions	67,232	54,146
Deferred income-government grant	23,614	18,500
Bonds payable	696,898	–
	<b>1,217,584</b>	326,848
	<b>2,826,180</b>	1,868,695

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

#### Movement in the Company's reserves

	<b>Capital reserve</b>	<b>FVTOCI reserve</b>	<b>Statutory surplus reserves</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2018 (restated)	405,334	3,346	13,783	213,921	636,384
Profit for the year	–	–	–	115,144	115,144
Other comprehensive expense for the year	–	(614)	–	–	(614)
Total comprehensive (expense) income for the year	–	(614)	–	115,144	114,530
Appropriation for the year	–	–	14,842	(14,842)	–
2017 final dividend declared and fully paid	–	–	–	(68,777)	(68,777)
At 31 December 2018	405,334	2,732	28,625	245,446	682,137
Profit for the year	–	–	–	117,963	117,963
Other comprehensive income for the year	–	369	–	–	369
Total comprehensive income for the year	–	369	–	117,963	118,332
Appropriation for the year	–	–	15,161	(15,161)	–
2018 final dividend declared and fully paid	–	–	–	(51,583)	(51,583)
At 31 December 2019	405,334	3,101	43,786	296,665	748,886



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 48. EVENTS AFTER THE REPORTING PERIOD

- (a) On 2 January 2020, the Company, together with 德昌縣興德投資有限責任公司(Dechang Xingde Investment Co., Ltd.) and 四川康浩建設工程有限公司(Sichuan Kanghao Construction Engineering Co., Ltd.), jointly funded the establishment of 德昌縣興瀘水務有限公司(Dechang Xinglu Water Co., Ltd., “Dechang Water”) with a registered capital of RMB17,739,000. Dechang Water is primarily engaged in wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.
- (b) On 18 February 2020, the Company, together with 雷波縣金沙江國有資產經營有限公司(Leibo Jinshajiang State-owned Assets Management Co., Ltd.), jointly funded the establishment of 雷波縣興瀘水務有限公司(Leibo Xinglu Water Co., Ltd., “Leibo Water”) with a registered capital of RMB60,000,000. Leibo Water is primarily engaged in tap water supply and the installation of tap water pipeline and equipment. The Company holds 51% equity interest in Leibo Water which is accounted for as its subsidiary.
- (c) On 13 December 2019, the Company entered into agreement with 中蓉投建實業有限公司 (Zhongrong investment and Construction Industry Co., Ltd.) for the establishment of 成都市青白江興瀘水務有限公司(Chengdu Qingbaijiang Xinglu Water Co., Ltd., “Qingbaijiang Water”) with a registered capital of RMB34,711,400. Qingbaijiang Water is primarily engaged in wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The registered capital has been fully paid on 6 January 2020.
- (d) The outbreak of Novel Coronavirus (“COVID-19”) in mainland China and the subsequent quarantine measures imposed by the mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group’s operations are located in Sichuan Province in mainland China. The Group had to stop its construction activities since February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

As the situation remains fluid as at the date these financial statements are authorised for issue, the Directors of the Company considered that the financial effects of the COVID-19 on the Group’s consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the first half of 2020.