



**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

# 2020 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, Dah Sing Financial Centre  
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:**

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  
Certified Public Accountants  
Public Interest Entity Auditor  
registered in accordance with the  
Financial Reporting Council Ordinance  
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 11 June 2021, 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 limited liability company established in the PRC on 25 March 2004 and 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

## CHAPTER II DEFINITIONS (Continued)

“Fanxing Environmental”	Luzhou Fanxing Environmental Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a limited liability company established in the PRC on 18 August 2016 and a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“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 limited liability company established in the PRC on 26 April 1999 and 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 limited liability company established in the PRC on 7 March 2003 and 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 limited liability company established in the PRC on 28 December 2018 and 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

## CHAPTER II DEFINITIONS (Continued)

“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
“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 limited liability company established in the PRC on 17 March 2003 and 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”	the year ended 31 December 2020
“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 limited liability company established in the PRC on 6 September 2002 and 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 limited liability company established in the PRC on 2 September 2002 and 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

## CHAPTER II DEFINITIONS (Continued)

“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“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 limited liability company established in the PRC on 30 December 2004 and 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 limited liability company established in the PRC on 5 November 2007 and 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), a limited liability company established in the PRC on 28 January 2003 and 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 limited liability company established in the PRC on 11 December 2000 and 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 limited liability company established in the PRC on 9 October 2018 and 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), a limited liability company established in the PRC on 31 July 2019 and a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“Zhihui Water”	Zhihui Water Science and Technology Co., Ltd.*(瀘州市興瀘智慧水務科技有限責任公司), a limited liability company established in the PRC on 2 January 2020 and a non-wholly owned subsidiary of the Company, mainly engaged in equipments sale.
“%”	percent



## CHAPTER III CHAIRMAN'S STATEMENT

Pursuing Development  
Driven by Innovation;  
Fulfilling Responsibility to  
Show the Sense of Duty

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 2020 on behalf of the Board.

In 2020, supported by all Shareholders and led by the Board, our Group adhered to our position as a “professional water supply and drainage operator”, focusing on the work theme of “reform and innovation, intelligent guidance, quality improvement and efficiency enhancement, and leapfrog development”. In addition, we paid close attention to national regional economic strategies and the strategy of rural revitalization. All our staff forged ahead for exploration and innovation, overcame difficulties under global outbreak of COVID-19, and maintained steady growth in operating results.

### BUSINESS REVIEW

In 2020, facing the sudden outbreak of COVID-19 as well as complicated and ever-changing situations, the Group ultimately achieved stable progress in operating results through reacting calmly and innovating business management. Particularly, it recorded a total revenue of approximately RMB2,521.9 million, representing an increase of approximately 22.0% as compared to the year ended 31 December 2019; total profits of approximately RMB224.8 million for the year, representing an increase of approximately 11.6% as compared to the year ended 31 December 2019; basic earnings per share was RMB0.24, increased by approximately 9.1% as compared to the year ended 31 December 2019. 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 LEADING

During the Reporting Period, the Company focused on intelligence leading and achieved development breakthrough in intelligent water construction from self-operation to output. With the application and experience of intelligence water, a number of practical and effective independent innovation projects, covering the “Internet + Production Management” system, the “Intelligent Inspection” system and the “BBR Process for Sewage Treatment”, have been nurtured. The Group made remarkable results in energy saving and consumption reduction, achieved production and operation from automation to intelligence, and converted relevant research and development achievements into intellectual property rights. The Company has relied closely on the regional advantage of Luzhou in the Chengdu-Chongqing economic circle and its urbanization development trend to establish Zhihui Water Company with benchmarking enterprises in the industry, positioning it as an “integrated solutions provider of intelligence water for small and medium-sized water enterprises”, and commenced business negotiations with a number of water enterprises. The advantages of leading in technology of the Group gradually emerged.

## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

### BUSINESS EXPANSION

During the Reporting Period, the Group persisted in managing the stock and increment of projects properly, strictly selected projects outside the region and made prudent investments. In an effort to overcome the impact of factors including tightening of the PPP policy of the country and the pandemic, the Group actively expanded projects outside the region and successively communicated and negotiated with project partners in a number of regions to carefully identify and steadily advance projects that are in line with the investment strategy of the Company. In addition, the Company entered into strategic cooperation framework agreements with Beijing Enfei Environmental Protection and School of Environment of Tsinghua University, which will provide the Company with extensive project information channels.

### PROJECT CONSTRUCTION

Through scientific management, the Company made solid progress in project construction. As of the end of the Reporting Period, Hejiang Huangxi Water Plant Phase I, Naxi Water Plant Phase I and Nanjiao Second Water Plant Phase II commenced trial operation upon completion of construction. The Group's daily water supply capacity reached 639,000 tons, representing an increase of 30.1% over the end of the previous year. The capacity expansion project of Erdaoxi Wastewater Treatment Plant completed construction of production line A and started trial run. The Group's daily sewage treatment capacity reached 391,000 tons, representing an increase of 19.6% over the end of the previous year, which consolidated the Company's main business base.

### INNOVATIVE MANAGEMENT AND CONTROL

During the Reporting Period, the Company carried out reform and innovation in corporate management to meet the development needs under the new situation. The Company further promoted the Group's organizational structure and optimization of formulation at all levels, reasonably allocated human resources; continued to optimize the remuneration management system to achieve a more reasonable allocation and incentive mechanism; established a position and skill level identification system, striving to improve the skills of employees and broke through the bottleneck of segmented management from five aspects, including configuration management, hierarchical management and control, business objective management, performance management and remuneration management to gradually establish and improve a management and control system for group-owned enterprises with its own and industrial characteristics and to enhance the integrated management of the Group. The Group carried out process reengineering to further standardize the approval procedures and simplify the approval hierarchy, paying attention to the time limit of approval, which significantly improved the labor production efficiency of the Group.

## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

### FUTURE PROSPECT

2021 is the beginning year of the 14th Five-Year Plan. The Group will take the opportunity of constructing “Chengdu-Chongqing Double-City Economic Circle” and development of “South Sichuan Economic Integration”, closely follow the macro industrial policy environment and market pattern, and focus on three major objectives, namely main business operation, investment expansion and industrial chain extension. By improving quality and efficiency, expanding scale of investment and seeking breakthroughs in industry extension, the Company will work together to build a new development pattern to promote the sustainable and high-quality development of its enterprises.

### 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, Sichuan Province, the PRC

30 March 2021

## 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

	2020 RMB'000	Year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	<b>2,521,905</b>	2,067,132	1,218,206	1,081,744	836,191
Profit before tax	<b>272,763</b>	231,994	186,630	163,169	165,812
Income tax expense	<b>(47,959)</b>	(30,471)	(19,388)	(20,480)	(25,016)
Profit for the year	<b>224,804</b>	201,523	167,242	142,689	140,796
Profit and total comprehensive income for the year attributable to:					
– Owners of the Company	<b>208,058</b>	190,960	153,451	131,298	126,647
– Non-controlling interests	<b>16,456</b>	10,932	13,177	11,391	14,149
	<b>224,514</b>	201,892	166,628	142,689	140,796
Return on average equity <sup>(Note)</sup>	<b>10.1%</b>	9.9%	8.7%	8.8%	11.4%
Basic earnings per share (RMB)	<b>0.24</b>	0.22	0.18	0.16	0.20

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

	<b>As at ended 31 December</b>				
	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	<b>7,224,011</b>	5,815,603	3,811,837	3,264,816	2,659,137
Total liabilities	<b>(4,891,079)</b>	(3,688,125)	(1,854,926)	(1,386,900)	(1,287,864)
<b>Total equity</b>	<b>2,332,932</b>	2,127,478	1,956,911	1,877,916	1,371,273
Equity attributable to owners of the Company	<b>2,176,637</b>	2,019,412	1,880,035	1,786,240	1,289,784
Non-controlling interests	<b>156,295</b>	108,066	76,876	91,676	81,489
	<b>2,332,932</b>	2,127,478	1,956,911	1,877,916	1,371,273

# CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

## 5.1 INDUSTRY OVERVIEW

On 16 October 2020, the Political Bureau of the Central Committee of the Communist Party of China convened a meeting to review the Outline of the Construction Plan of Chengdu-Chongqing Dual City Economic Circle, stressing that Chengdu-Chongqing region should become an important economic center with national influence, a scientific and technological innovation center, a new highland of reform and opening up, and a high-quality living and livable place, and requiring to make unremitting efforts to protect the ecological environment, enhance the harmonious co-existence of human and nature, and promote the high integration and high-quality development of cities and towns in the circle at the national level.

On 2 November 2020, the 57th executive meeting of Sichuan Provincial People's Government adopted the Measures for Water Conservation in Sichuan Province, proposing to establish and improve the tiered pricing system of domestic water for residents and the price increase system for accumulated non-residential water exceeding the quota in the area covered by urban public water supply network on the premise of ensuring the reasonable water demand of users.

On 29 December 2020, the General Office of Sichuan Provincial People's Government issued the General Plan for the Three-year Promotion of the Construction of Urban Domestic Wastewater and Urban and Rural Domestic Wastewater Treatment Facilities in Sichuan Province (2021–2023), proposing that by the end of 2023, the capacity of urban facilities at or above the county level will basically meet the demand of domestic wastewater treatment, and all towns will have the capacity of wastewater treatment.

The introduction of the above-mentioned policies provides strong policy support for water enterprises to integrate resources, cross regional development and water supply and drainage business extension.

The water industry belongs to public utilities, with strong policy guidance and enforcement of laws and regulations, less impact caused by the economic cycle, strong defensive to market changes and poor substitutability. China's water industry has strong regional characteristics, and most of them are state-owned, with favorable regional policies and financial support, etc. At the same time, water enterprises are exposed to policy, capital and qualification barriers when entering new areas to expand their businesses. However, the advantages of water industry in terms of technology, experience and qualifications are conducive to overcoming the difficulties of cross-regional business expansion, and the competitiveness of water projects is relatively strong.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.2 DEVELOPMENT STRATEGY AND OUTLOOK

In 2021, the Group will actively grasp the policy opportunities, vigorously promote the construction of “Smart Water”, establish information data platform, form its own core technology, actively expand the urban wastewater treatment market, improve the investment and financing capacity, adhere to the development idea of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, grasp the main business, expand the upstream and downstream industrial chain, and develop to be a comprehensive water service provider and environmental protection enterprise with more complete business and more standardized management.

Meanwhile, the Group will make full use of its own advantages by virtue of rich operation and management experience, to ensure the operation and management and business development of the Company. The Group will carry out systematic management and control, build up the red line of safety production, promote the refinement of production process, improve the fund management system to save energy and increase efficiency, strengthen the management of talents, build a team with excellent talents, optimize resource allocation, concentrate superior resources to expand high-quality and efficient projects.

### 5.3 BUSINESS REVIEW

The Company is an integrated municipal water service provider in Sichuan Province, the PRC, 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, the PRC, etc.

As at the end of the Reporting Period, we operated twelve tap water plants and nine city wastewater treatment plants with a total treatment capacity of approximately 1.03 million 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 twelve tap water plants with a daily supply capacity of approximately 639,000 tons representing an increase of two tap water plants and an increase of approximately 148,000 tons of daily water supply capacity in aggregate as compared with that as of 31 December 2019. The average utilization rate of tap water plants is 70.3%. Such increase was mainly because of the newly-established Naxi Water Plant and the Nanjiao Second Water Plant Phase II.

During the Reporting Period, our total sales of water amounted to approximately 144.2 million tons, representing an increase of 8.5% as compared with approximately 132.9 million tons for the year ended 31 December 2019. The increase was mainly due to the extended water supply areas in cities.

### 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 391,000 tons in aggregate and the average utilisation rate of wastewater treatment plants stood at 81.6%.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 139.5 million tons, representing an increase of 33.5% as compared with the total actual wastewater treatment capacity of approximately 104.5 million tons for the year ended 31 December 2019. Our total capacity of urban wastewater treatment with charges amounted to approximately 142.1 million tons (including 4.7 million tons from entrusted operation and 12.9 million tons from emergency projects), representing an increase of 12.5% as compared with approximately 126.3 million tons for the year ended 31 December 2019, which was mainly attributable to the substantial increase of the charged water volume after Erdaoxi Project Phase III and Xuyong Project Phase II group A were put into operation.

During the Reporting Period, we owned 135 wastewater treatment facilities in urban and rural areas of in three districts and two counties, namely Jiangyang district, Longma district, Naxi district, Xuyong county, Gulin county that have been put into operation successively, with a daily treatment capacity of approximately 34,000 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 22.0% from approximately RMB2,067.1 million for the year ended 31 December 2019 to approximately RMB2,521.9 million during the Reporting Period. The increase was mainly due to the increase in revenue from wastewater treatment infrastructure construction, upgrade services and installation services.

##### *5.4.1.1.1 Tap water supply*

###### Sales of tap water

Revenue of the Group generated from sales of tap water increased by 7.1% from approximately RMB317.5 million for the year ended 31 December 2019 to approximately RMB340.0 million for the Reporting Period. The increase was primarily due to a growth in the sales volume of tap water from approximately 132.9 million tons for the year ended 31 December 2019 to approximately 144.2 million tons during the Reporting Period. Revenue generated from sales of tap water accounted for 15.4% and 13.5% of our total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of the Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the income generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the income herein.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Installation services

Revenue of the Group generated from installation services increased by 17.2% from approximately RMB291.4 million for the year ended 31 December 2019 to approximately RMB341.5 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 14.1% and 13.5% of our total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the income generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the income herein.

### Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure increased by 2.1% from approximately RMB810.7 million for the year ended 31 December 2019 to approximately RMB827.6 million during the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Beijiao Second Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still in the construction stage, and the installation project of water supply network were newly developed. Such revenue accounted for 39.2% and 32.8% of the total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the income generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the income herein.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.1.1.2 Wastewater treatment

#### Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 13.2% from approximately RMB266.9 million for the year ended 31 December 2019 to approximately RMB302.1 million during the Reporting Period. The increase was primarily due to the improvement of wastewater treatment capacity resulting from the completion of construction and commencement of operation of Erdaoxi Project Phase III and Xuyong Project Phase II 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 126.3 million tons and 142.1 million tons for the years ended 31 December 2019 and 2020, respectively. Revenue generated from wastewater treatment operation accounted for 12.9% and 12.0% of our total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the income generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the income herein.

#### Interest income on receivables under service concession arrangements.

The Group's interest income on receivables under service concession arrangements increased by 64.0% from approximately RMB55.8 million for the year ended 31 December 2019 to approximately RMB91.5 million during the Reporting Period. The increase was mainly due to the increase in the number of sites put into operation by Fanxing Environmental as well as the operation of Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period, resulting in the increase in interest income on receivables. Interest income on receivables under service concession arrangements accounted for 2.7% and 3.6% of our total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, the partial completion of the Xuyong Phase II project, the increase in the number of sites put into operation by FanXing Environments and the newly acquired Gulin Phase II project generated new interest income, hence resulting in the corresponding increase of the proportion of the income herein.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure increased by 90.6% from approximately RMB324.8 million for the year ended 31 December 2019 to approximately RMB619.2 million during the Reporting Period. The increase was mainly due to the Group's construction of Erdaoxi Project Phase III and Xuyong Project Phase II, the addition of the new sites of Fanxing Environmental, and the establishment of the new wastewater treatment construction project of Qingbaijiang Water in December 2019. Such revenue accounted for 15.7% and 24.6% of the total revenue for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the income generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding increase of the proportion of the income herein.

#### *5.4.1.2 Cost of Sales and Services*

The Group's cost of sales and services increased by 22.1% from approximately RMB1,691.7 million for the year ended 31 December 2019 to approximately RMB2,065.8 million during the Reporting Period. This was primarily due to the increase in the cost of wastewater treatment infrastructure construction and upgrade services as well as installation services.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 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 12.4% from approximately RMB261.6 million for the year ended 31 December 2019 to approximately RMB294.0 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 15.5% and 14.2% of our total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decrease of the proportion of the cost herein.

#### Installation services

The Group's cost of sales and services associated with installation services increased by 53.8% from approximately RMB93.8 million for the year ended 31 December 2019 to approximately RMB144.3 million for the Reporting Period. Cost of sales and services associated with installation services accounted for 5.5% and 7.0% of the total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. The increase of cost and proportion was mainly due to the increase in the number of installation works during the Reporting Period, resulting in the increase in service costs.

## 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 decreased by 1.5% from approximately RMB809.1 million for the year ended 31 December 2019 to approximately RMB797.1 million for the Reporting Period. On the one hand, during the Reporting Period, the Beijiao Second Water Plant Phase I, the Nanjiao Second Water Plant Phase II and the Naxi Water Plant Phase I were still under construction, and the installation project of water supply network was newly developed, resulting in increased costs, but on the other hand, the cost of infrastructure construction and upgrade of water supply multiple track project in Luxian decreased this year as compared with last year. Therefore, from an overall perspective, the cost of infrastructure construction and upgrade of water supply decreased. Such cost accounted for 47.8% and 38.6% of the total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decrease of the proportion of the cost herein.

#### 5.4.1.2.2 Wastewater treatment

##### Operating services

The Group's cost of sales and services from sewage treatment operating services increased by 4.3% from approximately RMB202.8 million for the year ended 31 December 2019 to RMB211.6 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. Cost of sales and services from wastewater treatment operating services accounted for 12.0% and 10.2% of our total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost arising from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the cost herein.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services from construction and upgrade on sewage treatment infrastructure increased by 90.8% from approximately RMB324.4 million for the year ended 31 December 2019 to approximately RMB618.8 million during the Reporting Period. The primary reason for the increase was that the Group's construction of Erdaoxi Project Phase III and Xuyong Project Phase II, the addition of the new sites of Fanxing Environmental, and the establishment of the new wastewater treatment construction project of Qingbaijiang Water in December 2019. Such cost accounted for 19.2% and 30.0% of the total cost of sales and services for the years ended 31 December 2019 and 2020, respectively.

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

As a result of above, our gross profit increased by 21.5% from approximately RMB375.4 million for the year ended 31 December 2019 to approximately RMB456.1 million during the Reporting Period, which was attributable to the further expansion of infrastructure construction and upgrade services during the Reporting Period. Gross profit margin decreased from 18.2% for the year ended 31 December 2019 to 18.1% during the Reporting Period, which were basically with minimal changes.

#### *5.4.1.3.1 Tap water supply*

##### Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 17.7% from approximately RMB55.9 million for the year ended 31 December 2019 to approximately RMB46.1 million during the Reporting Period. Its corresponding gross profit margin decreased from 17.6% for the year ended 31 December 2019 to 13.6% during the Reporting Period. Such decrease was mainly due to the increase of amortization caused by the use of water supply channel and network as well as other infrastructure construction in the Reporting Period.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Installation services

The gross profit of the Group for installation services decreased by 0.3% from approximately RMB197.6 million for the year ended 31 December 2019 to approximately RMB197.1 million during the Reporting Period. Its corresponding gross profit margin decreased from 67.8% for the year ended 31 December 2019 to 57.7% during the Reporting Period. Such decrease was mainly due to the decrease of real estate projects with higher gross profit margin during the Reporting Period as compared with last year.

### Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure increased by 1,806.3% from approximately RMB1.6 million for the year ended 31 December 2019 to approximately RMB30.5 million during the Reporting Period. Such increase was primarily because the newly-built Nanjiao Second Water Plant Phase II was a self-constructed project with high gross profit. The gross profit margins were 0.2% and 3.7% for the years ended 31 December 2019 and 31 December 2020, respectively.

#### *5.4.1.3.2 Wastewater treatment*

### Operating service

The gross profit of the Group for sewage treatment operating services increased by 41.2% from approximately RMB64.1 million for the year ended 31 December 2019 to approximately RMB90.5 million during the Reporting Period. The corresponding gross profit margin increased from 24.0% for the year ended 31 December 2019 to 30.0% during the Reporting Period. Such increase was mainly due to the increase in the charged volume of wastewater plant after Erdaoxi Project Phase III and Xuyong Project Phase II were put into operation during the Reporting Period, and the effective cost control of the Group.

### Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure increased from approximately RMB389,000 for the year ended 31 December 2019 to approximately RMB446,000 during the Reporting Period. The increase was mainly because the Group 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 2019 and 2020 were both 0.1%.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.4 Other Income, Expenses, Gains and Losses, Net and Impairment Losses, Net of Reversal*

The Group's other income, expenses, gains and losses, net and impairment loss (net of reversal) increased by 9.3% from approximately RMB35.5 million for the year ended 31 December 2019 to approximately RMB38.8 million during the Reporting Period. The increase was mainly because the Group added technical consultation services of engineering projects independently for the third party during the Reporting Period, but the VAT rebate decreased due to the low VAT rate and more pending deduct VAT on purchase during the Reporting Period.

### *5.4.1.5 Distribution and Selling Expenses*

The Group's distribution and selling expenses decreased by 1.1% from approximately RMB18.2 million for the year ended 31 December 2019 to approximately RMB18.0 million during the Reporting Period. The decrease was primarily due to the policies of the State Council of the PRC on basic endowment insurance, unemployment insurance and industrial injury insurance (the "**three insurances**"), and the remission of fees of the three insurances and half reduction of medical insurance fees by Luzhou Social Security Bureau has led to the decrease of sales expenses.

### *5.4.1.6 Administrative Expenses*

The Group's administrative expenses increased by 0.2% from approximately RMB84.5 million for the year ended 31 December 2019 to RMB84.7 million during the Reporting Period. This was mainly due to the increased staff costs and increased administrative expenses of the newly established Dechang Water, Leibo Water and Zihui Water during the Reporting Period. But at the same time, benefiting from the State Council's policies on basic endowment insurance, unemployment insurance and work-related injury insurance (the "**three insurances**"), Luzhou Social Security Bureau remitted the fees of three insurances and halved the medical insurance fees, resulting in the decrease of administrative expenses.

### *5.4.1.7 Finance Costs*

The Group's finance costs increased by 55.0 % from approximately RMB76.4 million for the year ended 31 December 2019 to approximately RMB118.4 million during the Reporting Period, which was primarily because of the new borrowings of the Group during the Reporting Period. In addition, bonds payable and other financing instruments were just issued in 2019, and the interest period was shorter than that of the Reporting Period, resulting in the increase in interest expenses.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *5.4.1.8 Income Tax Expense*

The income tax expenses increased by 57.4% from approximately RMB30.5 million for the year ended 31 December 2019 to approximately RMB48.0 million during the Reporting Period. For the years ended 31 December 2019 and 2020, the actual tax rates of the Group were 13.1% and 17.6%, respectively, and the income tax expense increased significantly as compared with the previous year. On the one hand, the income tax expense increased during the Reporting Period due to the impact of the increase in pre-tax profit; on the other hand, with the extension of the preferential tax policy for the development of the western region to 2030, the reversal tax rate of temporary differences has generally changed from 25% to 15%, which has a great impact on the growth of deferred income tax expense.

### *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 11.6% from approximately RMB201.5 million for the year ended 31 December 2019 to approximately RMB224.8 million during the Reporting Period. The profit after tax margin decreased from 9.7% for the year ended 31 December 2019 to 8.9% during the Reporting Period.

## **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 RMB56.7 million and RMB80.8 million as at 31 December 2019 and 2020, respectively. The increase was mainly due to the increase of non-infrastructures related machines and official equipment. In addition, due to the establishment of Dechang Water and Leibo Water during the Reporting Period, the number of machines, office equipment and fixed installation increased.

### *5.4.2.2 Intangible Assets*

Intangible assets of the Group were approximately RMB2,714.2 million and RMB3,511.3 million as at 31 December 2019 and 2020, respectively. The increase was mainly due to the completion of the construction of the project and upgrade work.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.3 Receivables under Service Concession Arrangements

The receivables under service concession arrangements of the Group were approximately RMB1,169.1 million and RMB1,659.3 million as at 31 December 2019 and 2020, respectively. The increase was mainly due to the increase in the number of sites put into operation by Fanxing Environmental, and the partial operation of Erdaoxi Phase III and Xuyong Phase II during the Reporting Period, leading to the increase in receivables under service concession arrangements.

### 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 RMB45.4 million and RMB33.8 million as at 31 December 2019 and 2020, respectively. The main reason for the decrease was that the Group reserved part of the water meter transformation materials for the general meter households in 2020 in accordance with the policy transformation demand at the end of 2019. During the Reporting Period, with the development of the water meter transformation project for the general meter households, the inventory decreased accordingly.

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

	For the year ended 31 December	
	2020	2019
Average inventory turnover days <sup>(1)</sup>	22	26

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.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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. During the Reporting Period, the average inventory turnover date decreased from 26 days to 22 days for the year ended 31 December 2019. The decrease was mainly due to the strengthening of the Group's inventory management during the Reporting Period, which accelerated the turnover of inventory.

### 5.4.2.5 Trade Receivables

Our trade receivables were approximately RMB270.0 million and RMB353.7 million as at 31 December 2019 and 2020, respectively.

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

	For the year ended 31 December	
	2020	2019
Average trade receivables turnover days <sup>(1)</sup>	104	78

*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 78 days for the year ended 31 December 2019 to 104 days during the Reporting Period. The increase was mainly due to the delayed payment of wastewater treatment due to the outbreak of COVID-19, 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 RMB54.1 million and RMB59.0 million as at 31 December 2019 and 2020, respectively.

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

	For the year ended 31 December	
	2020	2019
Average trade payables turnover days <sup>(1)</sup>	31	32

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. The average turnover days of our trade payables decreased from 32 days for the year ended 31 December 2019 to 31 days during the Reporting Period, which was basically unchanged.

### 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	
	2020	2019
Average trade payables and construction payables turnover days <sup>(1)</sup>	145	102

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

*Note:*

- <sup>(1)</sup> 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 102 days for the year ended 31 December 2019 to 145 days during the Reporting Period. The increase was mainly due to the increase in construction payables of various tap water supply projects (including Beijiao Second Water Plant Project Phase I and Nanjiao Second Water Plant Project Phase II and Naxi Water Plant Project) and water treatment projects (including Erdaoxi phase III project and Xuyong phase II project).

### *5.4.2.8 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 of the Company 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 of issued share capital, FVTOCI reserve, capital reserve, statutory surplus reserves and retained profits ). 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 RMB1,036.2 million (at the end of 2019: approximately RMB1,095.9 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB2,041.6 million (at the end of 2019: RMB1,423.6 million), including bank and other borrowings, of which, approximately 55.6% 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 equity attributable to owners of the Company divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 78.2% (at the end of 2019: 50.7%).

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5 EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 1,142 employees (at the end of 2019: 940). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB161.1 million (at the end of 2019: approximately RMB161.2 million). The remunerations and benefits, 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 continued 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 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\$399.04 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\$1.76 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	38.32	1.76
<b>Total</b>	<b>400.8</b>	<b>399.04</b>	<b>1.76</b>



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.7 MAJOR ACQUISITIONS AND INVESTMENTS

On 13 December 2019, the Company entered into agreement with Zhongrong investment and Construction Industry Co., Ltd.\* (中蓉投建實業有限公司) for the establishment of Qingbaijiang Water with a registered capital of RMB34,711,400. The business scope of Qingbaijiang Water includes 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 2 January 2020, the Company, together with Dechang Xingde Investment Co., Ltd.\* (德昌縣興德投資有限責任公司) and Sichuan Haokang Construction Engineering Co., Ltd.\* (四川浩康建設工程有限公), jointly funded the establishment of Dechang Water with a registered capital of RMB17,739,000. The business scope of Dechang Water includes wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.

On 18 February 2020, the Company, together with Leibo Jinshajiang State-owned Assets Management Co., Ltd.\* (雷波縣金沙江國有資產經營有限公司), jointly funded the establishment of Leibo Water with a registered capital of RMB60,000,000. The business scope of Leibo Water includes 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.

Save as disclosed above, during the Reporting Period, the Company has no arrangements or future plans for major investments, sale or purchase of capital assets.

### 5.8 PLEDGED ASSETS OF THE GROUP

As at the end of the Reporting Period, there were secured bank borrowings of the Group that were secured by the Group's charging right for tap water supply fees of projects in township streets and rural areas in Jiangyang District, the land-use rights and charging right for wastewater treatment fees of Xinglu Wastewater Treatment, the charging right for wastewater treatment fees of Fanxing Environmental projects in township and rural area in Jiangyang District, Luzhou City, the Group's equity in Fanxing Environmental, the charging right for wastewater treatment fees of Qingbaijiang Water, certain tap water supply and wastewater treatment infrastructure and refundable security deposits.

Details of the assets pledged for security of the Group during the Reporting Period are set out in the Note 46 to the consolidated financial statements in this annual report.

Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.9 FOREIGN EXCHANGE RISKS

During the Reporting Period, when the Group carried out business in the PRC and received revenue and paid its costs/expenses in RMB, as 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 RMB60,000 during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

### 5.10 CONTINGENT LIABILITIES

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

### 5.11 SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB56.46 million (2019: approximately RMB57.77 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.

### 5.12 EVENTS AFTER REPORTING PERIOD

The non-controlling equity owner Hejiang County Agricultural Tourism Development Investment Group Co., Ltd.\* (合江縣農業旅游開發投資集團有限公司) is approved by the directors of the Company to increase the capital of Hejiang Water by cash of RMB16,000,000, which will increase the paid-in registered capital of Hejiang Water by RMB8,300,000, equity attributable to the Company by RMB5,838,000 and decrease the equity interest attributable to the Group from 85.93% to 79.83%.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.13 OTHER MATTERS

Fanxing Environmental, a subsidiary of the Company, is held as to 92.5% equity interests by the Company. In order to meet the capital demand for business development of Fanxing Environmental, the Company held the 42nd meeting of the first board of directors on 24 December 2020, with 9 votes in for, 0 vote against and 0 abstention considering and approving the Resolution on Consideration of Providing Guarantee for Fanxing Environmental to apply for RMB150 million Project Loan from Luzhou Branch of Great Wall West China Bank Co., Ltd, and agreeing to provide a third-party joint and several liability guarantee for Fanxing Environmental to apply for RMB150 million project loan from Bank of Great Wall West China Bank. The guarantee scope includes the principal and interest, and the expenses incurred in realizing creditor's rights of the loan, with a term of 12 years until the principal and interest of the loan are fully repaid.

Since the outbreak of novel coronavirus (“**COVID-19**”) in mainland China in early 2020, the mainland Chinese government has subsequently adopted quarantine measures and travel restrictions on other countries. The Group operates most of its business in Sichuan Province in mainland China. Due to the mandatory quarantine measures adopted by the government, the Group had to stop construction activities since February 2020 in order to contain the spread of the disease.

Since March 2020, the Company has fully resumed work and production as the area where the Company is located was defined as a low-risk area. The Directors believe that COVID-19 generally has no impact on the Group's consolidated financial statements as of 31 December 2020.

## CHAPTER VI DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 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 47, 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 28 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 39, 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 11 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 56, 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 34 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 50, 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 25 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 55, 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.

Ms. Xu has 25 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 served as general manager and assistant to president of Luzhou Laojiao Financial Center from July 2011 to October 2020 and director of Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司) from December 2012 to June 2019.

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 44, 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 55, 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). He has served as independent non-executive director of Sunway Co., Ltd. (尚緯股份有限公司) since December 2020 as well as independent supervisor of Wangcang Rural Commercial Bank (旺蒼農商銀行) since December 2020.

Mr. Gu has 31 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 52, has served as independent non-executive Director, and a member of the strategy committee of the Company since 31 March 2017.

Mr. Lin has over 30 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 served as 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) from January 2015 to December 2020 and served as Chairman 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) from January 2018 to December 2020 and a professor in Sichuan University of Science and Engineering\* (四川理工學院) from March 2014 to December 2019.

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\* (自貢市人大常委会立法諮詢組) in May 2016. He was appointed as a member of the Decision Consultant Committee of Zigong Municipal Government of Zigong Municipal Committee of the CPC in August 2019.

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

**Mr. Cheng Hok Kai, Frederick (鄭學啟先生)**, aged 57, 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 serves as an independent non-executive director, chairman of audit committee and member of nomination committee of Jiaying Gas Group Co., Ltd. (嘉興市燃氣集團股份有限公司) (stock code: 9908. HK) since 16 July 2020. He serves as an independent non-executive director and chairman of the audit committee of China Shun Ke Long Holdings Limited (中國順客隆控股有限公司) (stock code: 974.HK) since 5 August 2020.

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. Zheng resigned from the above positions on 31 January 2018. Mr. Zheng 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. Zheng 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 52, 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 19 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 39, 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) as well as supervisor of Sichuan China Spirit Products Exchange Center Co., Ltd. (四川中國白酒產品交易中心有限公司). 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 52, 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 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 Communist 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 49, 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 24 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.

## 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 58, joined the Group in April 1984 and serves as an employee representative Supervisor.

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. He served as the manager of the technology information department of the Company from October 2017 to August 2020.

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 50, 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 15 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 37, 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 12 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 47, 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 23 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 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. Xiao Tao (肖陶先生)**, aged 37, serves as deputy general manager of the Company and chairman of sewage treatment since October 2020, responsible for operation of sewage treatment segment and assisting the general manager in external investment.

Mr. Xiao served as officer of the urban management and supervision team of Luzhou City from July 2004 to July 2007. He worked as assistant director of the Urban Management Bureau of Naxi District, Luzhou City (瀘州市納溪區城管局) for on-the-job training from August 2006 to July 2007, and then served as deputy director of the Office of Personnel Bureau of Jiangyang District, Luzhou City (瀘州市江陽區人事局辦公室) from July 2007 to June 2008. From June 2008 to November 2009, he served as a member of the Party Working Committee and head of the Armed Forces Department of Qiancao Street Office in Jiangyang District, Luzhou (瀘州市江陽區茜草街道辦事處黨工委), and deputy secretary of the Communist Youth League, Jiangyang District, Luzhou (共青團瀘州市江陽區委副書記) (in charge of relevant work) from November 2009 to November 2010. From November 2010 to November 2012, he served as secretary of the Communist Youth League, Jiangyang District, Luzhou; and deputy secretary of the party work committee and director of the Office of Linyu Street, Jiangyang District, Luzhou (瀘州市江陽區鄰玉街道黨工委) from November 2012 to May 2016. From May 2016 to March 2017, he served as secretary of the Party Committee and director of Judicial Bureau of Jiangyang District, Luzhou City (瀘州市江陽區司法局). He served as secretary of the Party Working Committee of Zhangba Street Office, Jiangyang District, Luzhou City from March 2017 to January 2018 and head of the Party Affairs Department of Xinglu Investment from January 2018 to September 2020. Mr. Xiao majored in traffic road management from Sichuan Police College (四川員警學院) in July 2004 and obtained a master's degree in agricultural promotion from Sichuan Agricultural University (四川農業大學) in 2016.

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

**Mr. Chen Xuejie (陳學傑先生)**, aged 56, 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.



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

**Mr. Ouyang Peng (歐陽鵬先生)**, aged 46, joined the Group in September 2013 and serves as the chief financial officer and manager of the accounting department of the Company. He serves as an executive director of Sitong Engineering since 30 January 2019. He is executive director of Naxi Water since 14 February 2019.

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. He served as chairman of Sitong Engineering from 28 February 2018 to 30 January 2019.

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 47, 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 15 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 2020 are set out in consolidated statement of profit or loss and other comprehensive income. The financial position of the Group at the end of the Reporting Period is set out in the consolidated statement of financial position. The consolidated cash flows of the Group during the Reporting Period are set out in the consolidated statement of cash flows.

## 7.3 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 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 2020 (2019: RMB0.06 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Thursday, 8 July 2021 (the "**Record Date**") (subject to the approval of Shareholders on the annual general meeting to be held on Friday, 11 June 2021), with the total amount being approximately RMB51,583,000. Once approved, the final dividends will be paid on or before Friday, 30 July 2021.

### 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 ANNUAL GENERAL MEETING

We will convene the Annual General Meeting on Friday, 11 June 2021.

### 7.6 CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Friday, 11 June 2021 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the Annual General Meeting is Tuesday, 1 June 2021. 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 Monday, 31 May 2021.

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 Saturday, 3 July 2021 to Thursday, 8 July 2021 (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 Thursday, 8 July 2021. 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 Friday, 2 July 2021.

## 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" 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" and the section "Development Strategy and Outlook" to the chapter headed "Management Discussion and Analysis" 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" 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 region wise of water supply market, local governments usually favor large-scale water enterprise 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 assistance 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: the Company will 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 Risks

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.

### 7.11.7 Policy Risks

Adjustments to water supply prices and charges in relevant laws and policies will result in a decrease in the Company's business revenue, which will in turn affect the Company's operating income.

We will take the following countermeasures: accelerate the expansion of external investment, extend the upstream and downstream industry chain and seek new profit growth to offset the adverse impact caused by the adjustment of laws and policies.

During the Reporting Period, the Company was not affected by the changes in relevant laws and policies.



## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.12 KEY RELATIONSHIPS

#### 7.12.1 Relationship with Employees

At the end of the Reporting Period, the Company had 1,142 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" 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 -party suppliers 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 Relationship with Customers

In tap water supply, our customers are mainly urban and rural residents, industrial and commercial users and other institutions in three districts and three 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 RMB1,594.0 million, accounting for 63.2% of the total amount of revenue for the Reporting Period, and the total amount of sales to the largest customer was RMB1,105.7 million, accounting for 43.8% of the total amount of revenue for the Reporting Period.

Our top five customers are independent third-party suppliers. 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 Relationship with 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 RMB839.1 million, accounting for 50.8% of the total amount of procurement for the Reporting Period. The purchase from the largest supplier was RMB498.1 million, accounting for 30.1% of the total amount of procurement for the Reporting Period. Our top five suppliers are independent third-party suppliers. 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

Pursuant to the special resolutions passed at the 2018 first extraordinary general meeting of the Company held on 3 December 2018 in relation to to issue corporate bonds and authorize the Board or its authorized persons to deal with the matters in relation to the issue of the Corporate Bonds. And 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. The Company successfully issued corporate bonds with accumulated principal amount of RMB7 million on 26 April 2019 and 23 September 2019, respectively, which have been listed on the Shanghai Stock Exchange. For details of the bonds, please refer to the announcement of the Company on the Shanghai Stock Exchange and the announcements of the Company on the Hong Kong Stock Exchange dated 29 April 2019, 20 September 2019 and 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 Note 47 to the consolidated financial statements in this annual report, of which the reserves distributable to the Shareholders are also set out.

### 7.18 PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the Reporting Period are set out in the Note 15 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 31 to the consolidated financial statements in this annual report.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.20 DONATIONS

During the Reporting Period, the Group's external donation amounted to RMB233,000 (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	December 2015
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" 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
Mr. Xiao Tao	Deputy general manager	October 2020

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

During the Reporting Period, saved as disclosed in the section headed "Directors, Supervisors and Senior Management", there is no other information relating to the changes in the information of Directors, Supervisors and chief executives of the Company that is required to be disclosed pursuant to the requirements of Rules 13.51(2) and 13.51(B) of the Listing Rules.

### 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" of this annual report.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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 Note 12 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.

### 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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

During 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.

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

To the deep knowledge of the Company based on the public information, 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%

## CHAPTER VII DIRECTORS' REPORT (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Beijing Enterprises 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%
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%



## 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
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%

- (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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

- (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.

### 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” of this annual report.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.26 MANAGEMENT CONTRACT

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

### 7.27 MATERIAL CONTRACTS

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

### 7.28 CONTINUING CONNECTED TRANSACTIONS 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-party manufacturers. 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.

#### 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-party manufacturers. 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

On 19 June 2020, the Company entered into the construction service agreement with Luzhou Aviation Development Investment Group Co., Ltd. (瀘州航發公司) (“**Luzhou Aviation Development Company**”), pursuant to which, the Company agreed to provide water supply pipelines construction and installation services to Luzhou Aviation Development Company until 31 December 2020, with an annual cap of RMB19.6 million. As Luzhou Aviation Development Company is a 83.78% controlled company (as defined in the Listing Rules) of Xinglu Investment, the controlling shareholder of the Company, Luzhou Aviation Development Company 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 Luzhou Aviation Development Company constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with disclosure requirements under Chapter 14A of the Listing Rules. On 28 January 2021, the Company entered into the Supplemental Agreement with Luzhou Aviation Development Company to adjust the term of the Luzhou Aviation Development Company Construction Service Agreement from 20 June 2020 to 30 December 2020 to a period from 10 February 2021 to 31 December 2021. For details, please refer to the announcement published by the Company on the websites of the Hong Kong Stock Exchange and the Company on 28 January 2021.

### 7.28.3 Property Lease

The Company has been using and occupying the first, fifth to ninth floors of a property situated at 16 Baizi Road, Jiangyang District, Luzhou City, Sichuan Province, the PRC, with a gross floor area of approximately 5,989 square meters as the Company's office pursuant to a property leasing agreement (“**Company Property Leasing Agreement**”) dated 30 June 2014 between Luzhou City Xinglu Assets Management Co., Ltd. and the Company for the use and occupation of the said property at nil consideration for a term from 30 June 2014 to 29 June 2017. Such Company Property Leasing Agreement was renewed on 1 July 2017 with a term from 1 July 2017 to the date of completion of construction of office building and commencement of operation (“**Renewed Company Property Leasing Agreement**”) as the office building of the Company has not been put into use upon expiry of the Company Property Leasing Agreement. Upon completion of construction and put into use of such office building, the Company will cease to use or occupy the said property leased from Luzhou City Xinglu Assets Management Co., Ltd. Given that the consideration under the Company Property Leasing Agreement and the Renewed Company Property Leasing Agreement is nil, and thus each of the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transaction thereunder is less than 0.1%, such transaction constitute de minimis continuing connected transaction under Rule 14A.76 of the Listing Rules. Therefore, such transaction will be fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28.4 Property management

On 15 June 2018, Xinglu Wastewater Treatment, a subsidiary of our Company, entered into a property management service contract with Luzhou Xinglu Property Management Co., Ltd. ("**Xinglu Property Management**"). Pursuant to which, Xinglu Property Management agreed to provide property management services to Xinglu Wastewater Treatment for a term commencing from the date of signing the contract until 31 May 2020. Such contract was renewed on 19 June 2020 and the term of service was renewed to 31 May 2022. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment of the Controlling Shareholder of the Company, it is regarded as a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transactions between the Group and Xinglu Property Management constitute continuing connected transactions of the Company. The Company has also complied with the relevant requirements under Chapter 14A of the Listing Rules. During the Reporting Period, the total amount paid by Xinglu Wastewater Treatment for the property management services was RMB4.1 million. For details, please refer to the announcement published by the Company on the websites of the Hong Kong Stock Exchange and the Company on 19 June 2020.

### 7.28.5 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

## CHAPTER VII DIRECTORS' REPORT (Continued)

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.

### 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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.

### 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.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 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 Management Discussion and Analysis 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 2020. The Company's consolidated financial statements for the year ended 31 December 2020 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, Sichuan Province, the PRC  
30 March 2021



## 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	2/2	100%
Ms. Xiang Min	Employee representative Supervisor	2/2	100%
Mr. Zhu Yuchuan	Employee representative Supervisor	2/2	100%
Mr. Xuan Ming	External Supervisor	2/2	100%
Mr. Xiong Hua	External Supervisor	1/2	50%

### 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 2019, interim report and results announcement for the six months ended 30 June 2020 and other proposals, so as to keep abreast of the business condition of the Company in a timely manner.

### 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 Independent Opinions on Major Issues of the Company

During the Reporting Period, the Supervisory Committee put forward independent opinions on major issues of the Company according to their duties, held a special meeting, reviewed the overall plan for the reform of the Company's official car system, made recommendations on the actual situation, and supervised the implementation.

### 8.2.7 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 2020

### 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 2020 and confirmed the contents of the meetings convened by way of communication. The Supervisory Committee considers that the convening of Board meeting, the qualification of participants and the decision-making procedures met requirements of the Company Law, the Securities Law and the Articles of Association, and that the resolutions made were valid and effective. 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 the Reporting Period 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 2020

#### 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 2020, 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 connected transactions

Connected transactions between the Company and connected persons are all subject to the approval by regulations and fulfilled their disclosure duties in a timely manner. In the course of consideration and voting of the connected transactions above, the Supervisory Committee didn't find any insider trading and behavior that undermined the interest of the Company and Shareholders, and the connected Directors abstained from the voting, and oversaw the abstaining from voting by connected Directors. As such, the Supervisory Committee is of its opinion that the connected 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, Sichuan Province, the PRC  
30 March 2021

# 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 SUPERVISIONS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors, Supervisors and employees of the Group who, due to his/her position or employment, is likely to possess inside information in relation to the Group or the Company's securities. 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. In addition, during the Reporting Period, the Company was not aware of any non-compliance of the Model Code by the relevant employees of the Group.

## 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” 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.

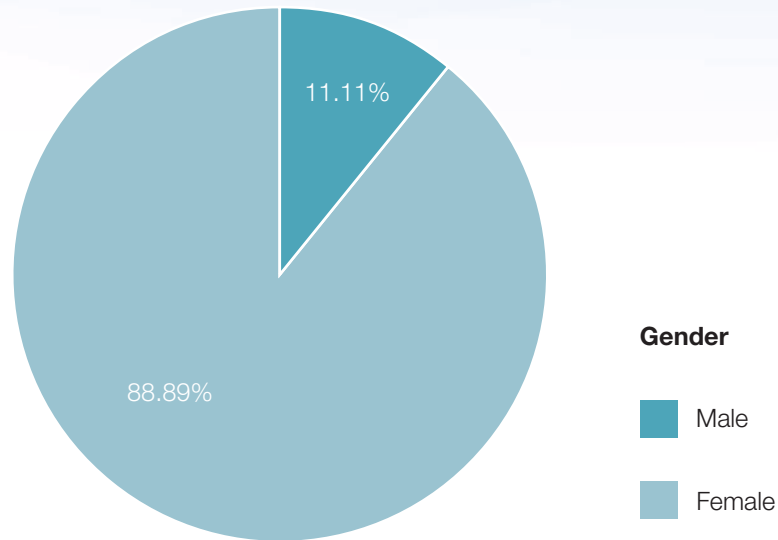
### 9.10 BOARD DIVERSITY POLICY

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. After balancing the above factors, the decision is ultimately based on the strengths of the personnel and the contributions that can be made to the Board.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

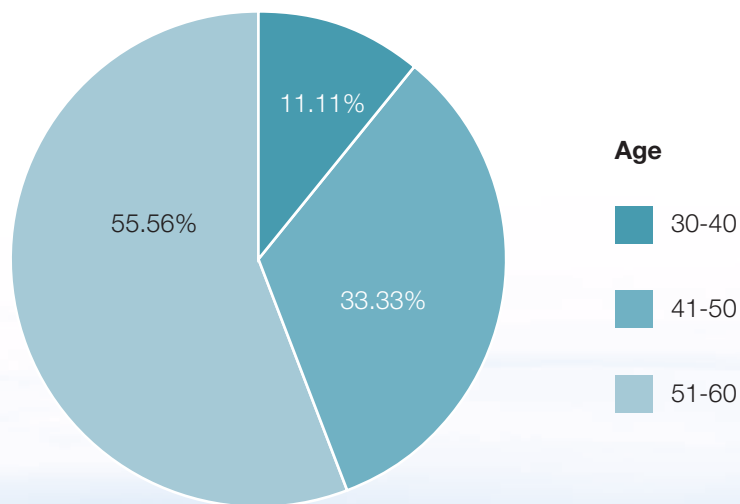
### 9.10.1 Gender

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

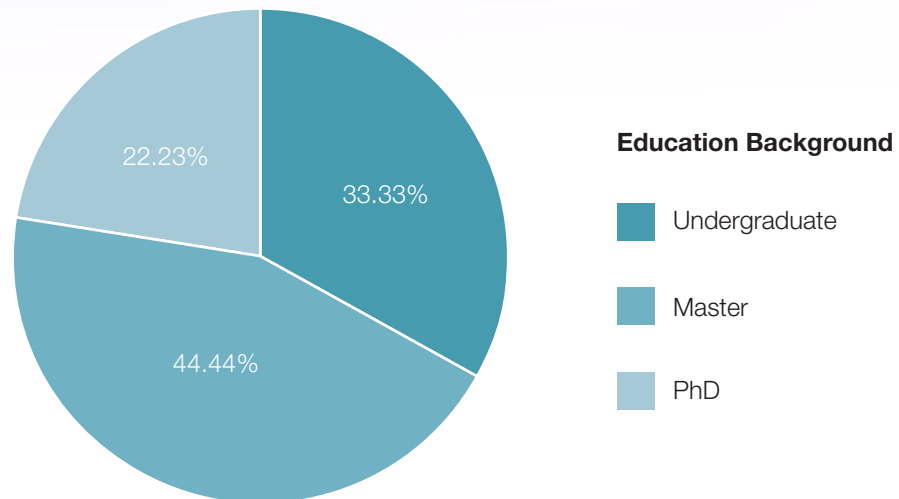
Among the Board members, there are 1 member aged 30–40, 3 members aged 41–50, and 5 members aged 51–60, accounting for 11.11%, 33.33% and 55.56% of the total number respectively.



## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

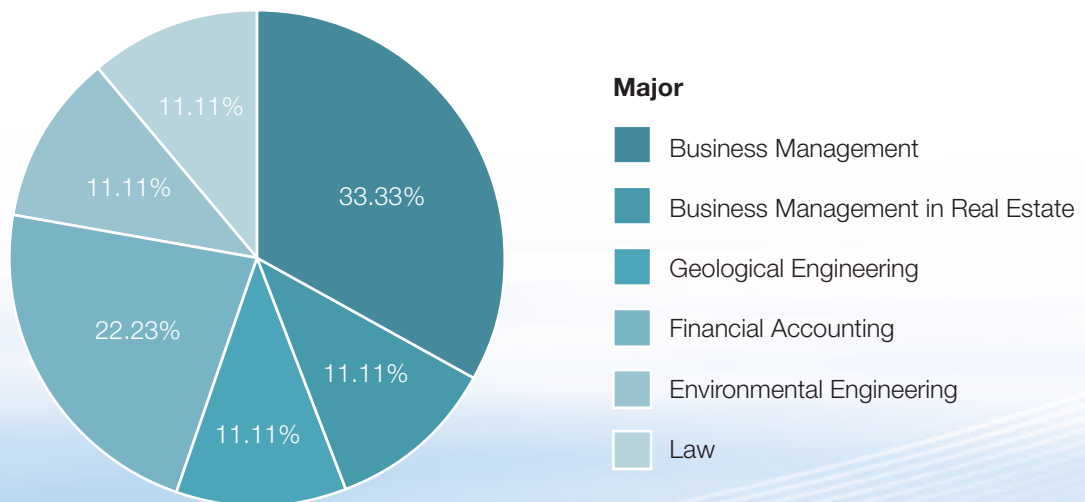
### 9.10.3 Cultural and Educational Background

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.

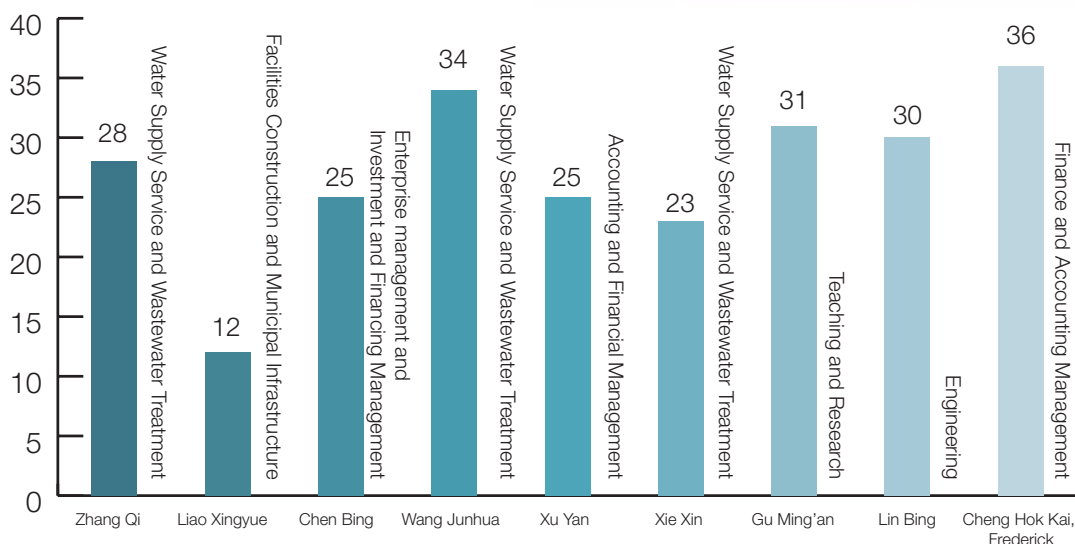


## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 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 one regular meeting 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 Corporate Governance Code, the Board meetings should be convened at least four times for a financial year. 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 Board to all Directors, Supervisors, the managers 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 8 meetings, and the attendance of Directors are as follow:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and chairman of the Board	8/8	100%
Mr. Liao Xingyue	Executive Director and general manager	8/8	100%
Mr. Wang Junhua	Executive Director and deputy general manager	8/8	100%
Mr. Chen Bing	Non-executive Director	8/8	100%
Ms. Xu Yan	Non-executive Director	8/8	100%
Mr. Xie Xin	Non-executive Director	8/8	100%
Mr. Gu Ming'an	Independent non-executive Director	8/8	100%
Mr. Lin Bing	Independent non-executive Director	7/8	88%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	8/8	100%

During the Reporting Period, 2 general meetings was held, and the attendance of Directors are as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and chairman of the Board	2/2	100%
Mr. Liao Xingyue	Executive Director and general manager	2/2	100%
Mr. Wang Junhua	Executive Director and deputy general manager	2/2	100%
Mr. Chen Bing	Non-executive Director	2/2	100%
Ms. Xu Yan	Non-executive Director	2/2	100%
Mr. Xie Xin	Non-executive Director	2/2	100%
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Lin Bing	Independent non-executive Director	1/2	50%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	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 study the guidance documents of the Listing Rules as amended by the Hong Kong Stock Exchange from time to time, 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 Company has set up three special Board committees, namely, the Strategy Committee, the Nomination and Remuneration Committee and the Audit Committee. The Board has delegated a number of functions to corresponding committees.

#### 9.15.1 Strategy Committee

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.

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	Independent non-executive Director	1/1	100%

### 9.15.2 Nomination and Remuneration Committee

The nomination and remuneration committee consists of independent non-executive Directors, namely Mr. Gu Ming'an and Mr. Cheng Hok Kai, Frederick, and 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 remuneration policies for the overall remuneration policy and structure of directors and senior management and for the establishment of formal and transparent procedures, provide recommendations to the Board, review the corporate policies and objectives set by the Board and approve management's compensation proposals, assess the performance of executive directors and approve the terms of service contract of executive directors and provide recommendations to the Board on employee benefit arrangements, as well as to provide recommendations to Board on the remuneration packages of individual executive directors and senior management.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings, 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 and the appointment of Mr. Xiao Tao as the Company's deputy general manager.

## 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	2/2	100%
Mr. Zhang Qi	Executive Director and chairman of the Board	2/2	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%

### 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 internal control, risk management, financial information disclosure and financial reporting matters of the Group.

During the Reporting Period, the Audit Committee held 3 meetings, in which, the Auditor's Report for 2019, the Interim Review Plan for 2020 and the Review Report, the Audit Work Plan for 2020 were heard; and the Auditor's Report, Annual Results, the Annual Report for 2019, Auditor's Interim Report, the Interim Consolidated Financial Statements, the Interim Results announcement and the Interim Report for 2020, 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 12 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	0
500–600	0
400–500	3
300–400	0
Below 100	1

## 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 2020.

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 2020 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” 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	2,220
Interim financial review services	550
Other services	0
<b>Total charges</b>	<b>2,770</b>

### 9.22 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to enhance the corporate governance and to improve the operation efficiency of the Company, the Company held its 2020 first extraordinary general meeting to vote on the amended Articles of Association on 24 April 2020. For details, please refer to the circular of the Company issued on 10 March 2020 and the voting result announcement of 2020 first extraordinary general meeting issued on 24 April 2020. The amended Articles of Association has been published on the websites of the Hong Kong Stock Exchange and the Company.

### 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. Both Mr. Chen and Ms. Ng participated in relevant professional training not less than 15 hours during the Reporting Period 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. (the “**Company**” or “**Xinglu Water**”) and its subsidiaries (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, 2020 to December 31, 2020. 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 Limited (the “Hong Kong Exchange”)([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.lzss.com](http://www.lzss.com)).

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

### ABOUT US

#### ESG Management

The Company constantly implemented the concept of sustainable development and implemented ESG management practices. The Company has been constantly improving ESG management, establishing a linkage ESG management mechanism, proactively communicating with stakeholders, focusing on important ESG issues concerned by all parties, and constantly improving the effectiveness of sustainable development.

- *ESG Governance Framework*

The board of the Company paid great attention to the issues of the Company concerning environment, social, and governance, and was responsible for the environment, social, and governance strategy and reporting, including evaluation and determination of risks for environment, social, and governance faced by the Company, ensuring establishment of an efficient environment, social, and governance risk management and internal monitoring system of the Company, and approving materials disclosed in the environment, social, and governance report of the Company. This report is issued upon review by the Board.

To promote the ESG-related work, the Company has integrated the ESG into the Company's daily operation. The Company has established an ESG working group to clarify the implementation of ESG management and target responsibilities, and arranged full-time staff in charge of ESG-related affairs communication, data collection, and report preparation, etc. and of the reporting of the related information to the Executive Committee on a regular basis.

- *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 standard, 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.

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

### • Stakeholders Communication

The Company continued to maintain communication with stakeholders, establishes diversified communication channels, constantly listened to the expectations and appeals of stakeholders, and responded to the opinions of stakeholders in a timely manner. While operating in compliance with laws and regulations, the Company fulfilled its social responsibilities, and created value for stakeholders. 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.

Stakeholders	Topics	Channels of Communication	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 framework</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)

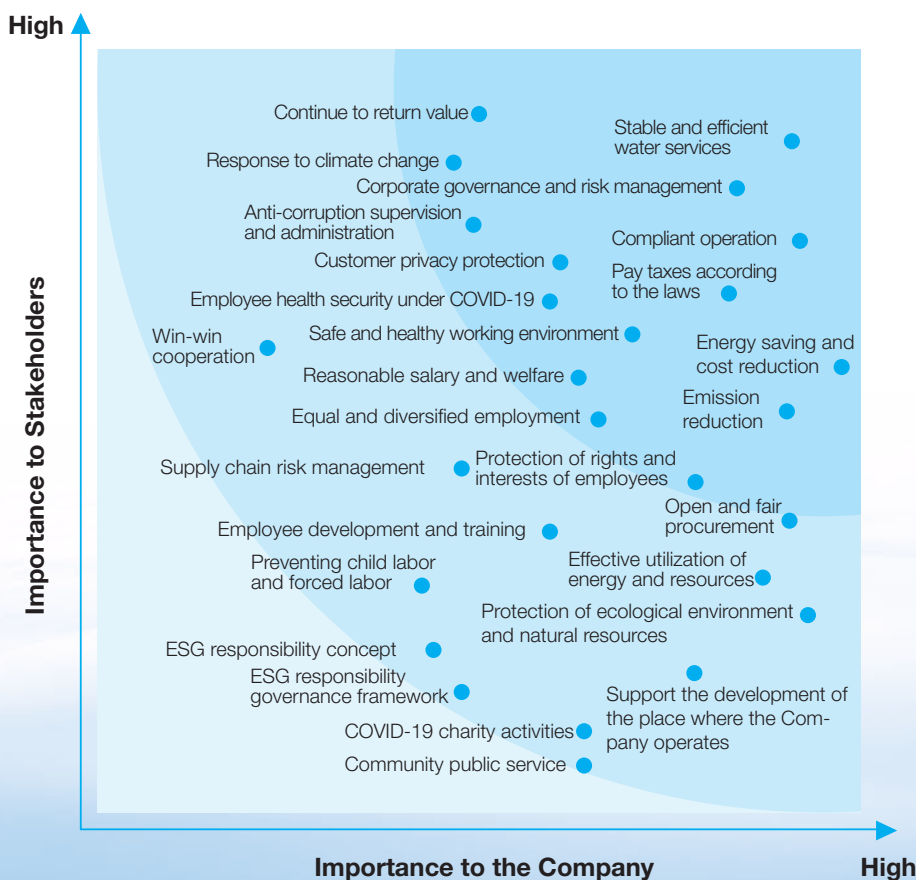
Stakeholders	Topics	Channels of Communication	Responses
Employee	<ul style="list-style-type: none"> <li>• Equal and diversified employment</li> <li>• Reasonable salary and welfare</li> <li>• Smooth development channel</li> <li>• Safe and healthy working environment</li> <li>• Preventing child labor and forced labor</li> <li>• Employee satisfaction</li> <li>• Employee health security under COVID-19</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>• On-line 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> <li>• COVID-19 charity 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> <li>• COVID-19 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>• Environment 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*

The Company, by referring to the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules and international standards, evaluated and analyzed the environmental, social, and governance topics through questionnaires, interview and communication and formed the following matrix of substantive topics through screening and ranking, under the lead of the ESG working group and from the perspective of importance of the topics to the stakeholders and to the Company itself. Management issues related to the identified ESG material issues will be disclosed in this report.

During the Reporting Period, on the one hand, the Company sorted out the concerns of stakeholders on the Company in various departments in the daily work; on the other hand, the Company sent out questionnaires to stakeholders including government and regulators, investors/shareholders, the board, employees, customers, suppliers, partners, peers, communities and the public, non-governmental organizations, media, and experts, and received 169 valid questionnaires. The results of the survey through communication with external stakeholders formed the sequencing basis of the issues concerned by stakeholders, while the results of the survey through communication with the board of directors, the Company's senior management and other management personnel were used to determine the sequencing basis of material issues for the Company. Through the assessment, identification and ranking of issues, a matrix of material ESG issues of the Group has been formed, and emphasis was put on the disclosure of material ESG 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 Systems 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. During the Reporting Period, the Company revised and perfected the Management Measures for Discipline Inspection and Supervision, in order to implement full coverage of discipline inspection and supervision, and strengthen the oversight over the production, operation and management activities of the Company.

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

- *Anti-corruption Management*

Regarding anti-corruption management, the Company not only paid attention to the implementation of related honesty responsibilities, but also stressed on the enhancement of the ideological construction of employees. On the one hand, the Company signed honesty-related responsibility statements with corresponding organizations and individuals. For example, the annual Targeted Responsibility Letter on Practice of Honesty was signed by and between the Company and the employees on positions of honesty risks, and the general party branch of the Company and the Group signed the Targeted Responsibility Letter on Party Building and Construction of Clean Party Conduct, etc. Meanwhile, the Honest and Clean Agreement was introduced to improve the system for the honesty risks prevention and control, and to effectively prevent the honesty risks of business cooperation; on the other hand, the Company organized and carried out the honesty oath for middle-level and grassroots management personnel, and conducted honesty talks with them before and in their term of office. The Company was dedicated to strengthening the staff's awareness of honesty, and enhanced the construction of clean party conduct and the education and management of the staff team of the Company, and perfected the mechanism for supervision and restriction of practice of honesty.

- *Report Channel*

The Company took the initiative to encourage the masses to strengthen supervision, set up reporting-related telephones and mailboxes, in order to facilitate timely and accurate feedback from the masses, and promote the healthy operation and steady development of the Company.

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

- *Anti-corruption Training*

To effectively strengthen the construction of clean party conduct of the Company, the Company carried out the training on the Interpretation on Study of the Honesty and Self-discipline Rules of the Communist Party of China, organized seminars on the topic of clean party conduct throughout the Company, fully implemented the requirements for strict party governance, and strengthened the warning and education of practice of honesty.

- *Anti-corruption Publicity*

The Company sent honesty messages to the leaders and middle management before holidays, and established the “three mornings and three cards” system, issuing honesty reminder card to personnel on important positions.

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.

### Topic: Join Hands to Fight the Epidemic

At the beginning of 2020, the outbreak of COVID-19 has greatly affected the people’s life and economic activities throughout the country. In the face of the sudden epidemic, the Company responded quickly and proactively took actions such as online and offline linkages to fight the epidemic to ensure the health and safety of employees. At the same time, the Company enthusiastically supported anti-epidemic public welfare activities, proactively assumed social responsibilities, and contributed strength to the epidemic prevention and control.

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

- *Care for Employee Health*

In response to the epidemic prevention and control, the Company has always adhered to the “seven focuses”, namely, sticking to focusing on personnel investigation, care for employees, body temperature monitoring, prevention and control of key sites, prevention and control of material allocation, first-line business arrangements, and water supply safeguard for resumption of work and production, effectively put the epidemic prevention and control, production and operation in place, and spared no efforts to win the fight against the epidemic. The Company took a number of measures to protect the health and safety of every employee in combination with the requirements on epidemic prevention and in light of its own condition, fully showcasing the Company’s humanistic care.

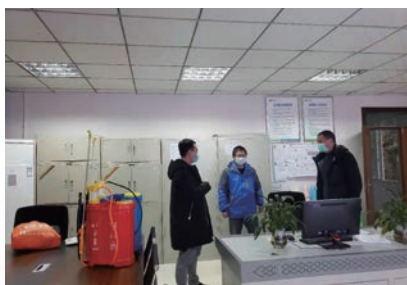
First of all, the Company strictly controlled and screened the entry and exit of personnel, implemented dynamic management in combination with the information of “Tianfu Health Code”, and effectively implemented “four-must” in and out of the office, scanning the QR code, taking the temperature, wearing a mask, and registering the real name of abnormal circumstances. Meanwhile, the Company attached great importance to strengthening employee health education and personal reporting, and guided employees to insist on wearing masks scientifically, keeping a social distance, washing hands frequently, and reporting personal health conditions in a time manner. In addition, the Company paid attention to strengthening the anti-epidemic supplies reserve. The Department of Safety and Environmental Protection and Material Supply Department should cooperated with each other to ensure that the inventory of anti-epidemic supplies was sufficient, and required the canteen to purchase cold-chain food and imported food as little as possible, and paid attention to concurrent prevention of the epidemic import from people and articles.

**Case: Plan ahead and Advance in an Orderly Manner – Fanxing Environmental Protection Stuck to the Frontline of Epidemic Prevention and Control**

To strengthen the organization and leadership of the joint prevention and control of COVID-19 epidemic, on January 29, 2020, Fanxing Environmental urgently convened a meeting on special research on the response to COVID-19 epidemic, established a leading group for the prevention and control of COVID-19 epidemic, carried out various emergency disposals in a timely manner, effectively controlled the import and spread of the epidemic, and effectively maintained normal production and operation order.

Under the leading group, there were working groups such as the comprehensive coordination group, the production operation group, and the logistics support group respectively in charge of making overall planning and coordination of epidemic prevention and control, ensuring the stability and safe operation of plants and stations during the epidemic prevention and control period, purchasing and distributing anti-epidemic supplies, and other works. As of February 4, 2020, 4,000 masks, 40 barrels of disinfectant fluid, and 3 infrared body temperature measuring instruments have been in place, and have been distributed to employees in batches, providing a strong guarantee for epidemic prevention and control. In accordance with the requirements on “one position with dual responsibilities”, the members of the leading group strengthened the work measures, paid attention to the epidemic prevention and control within their respective management scope, and guided the employees not to fabricate, believe in, or spread rumors. At the same time, all employees kept their mobile phones open for 24 hours a day, and were on call in case of emergency.

In the face of the epidemic, the Company strictly implemented the key tasks such as thorough search of staff information, anti-epidemic supplies reserve, public area disinfection and so on, comprehensively and effectively carried out the epidemic prevention work after the resumption of work, and made concerted effort to overcome the current difficulties.



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

- *Devotion to Public Benefit Activities*

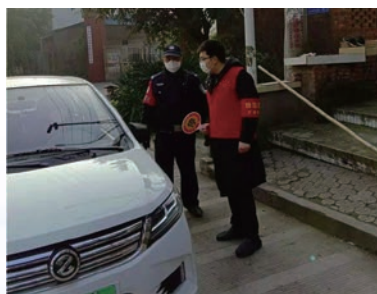
During the epidemic period, we have never forgotten to practice corporate social responsibility, established a responsible corporate image, did our best to dedicate love, and contributed to the anti-epidemic public welfare activities. On the one hand, the Company took the initiative to engage in offline public welfare activities, such as the establishment of the youth epidemic prevention and control volunteer service team of Xinglu Water, assisting the fight against the epidemic with practical actions; on the other hand, the Company launched a series of public welfare publicity programs for “Heroes in Harm’s Way”. For example, SARS “veterans” fought against the COVID-19 epidemic again, and “officials in charge of anti-epidemic supplies” built a solid “home front of materials”, etc. While publicizing advanced figures in fighting the epidemic and carried forward the spirit of fighting the epidemic to the public, the Company popularized the anti-epidemic knowledge, in order to enhance the self-protection awareness of the public.

### **Case: Blow the Anti-epidemic “Rally Number” – youth pandemic prevention and control volunteer service team from Xinglu Water Report to the Community**

To win the sniper war on epidemic prevention and control, the Youth League Committee of Xinglu Water quickly responded to the government’s call, and established the “youth epidemic prevention and control volunteer service team of Xinglu Water” in the first time to brave the pandemic and write the responsibility of the youth from Xinglu Water with practical actions.

On February 11, 2020, the volunteer service team devoted themselves to the fight against the epidemic in Hongxing Street in Jiangyang District, Anfu Street in Naxi District and other places. Under the unified command of the local party committee and government, volunteers proactively carried out epidemic prevention and control publicity and voluntary services, carried out COVID-19 epidemic prevention and control and health knowledge publicity, hung epidemic prevention and control publicity slogans, and posted anti-epidemic notices; carried out community management and control voluntary services to register and screen foreign personnel, and did a good job in epidemic prevention and control; carried out road management and control voluntary services to persuade and disinfect foreign vehicles. In addition, young volunteers joined the community work WeChat group to convey the epidemic prevention and control instructions and the spirit of related announcements to the masses, and guided the masses not to gather or visit friends or relatives, and not to believe in, fabricate or spread rumors, and worked together to build a tight line of defense against the epidemic by the masses.

This volunteer activity fully showcased the Company’s spirit of taking the lead and not fearing difficulties. During the epidemic period, employees of Xinglu Water always stuck to the front line of epidemic prevention and control, and contributed their strength to win the epidemic prevention and control battle.





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

- *Spare no Effort to Safeguard the Water Supply*

When the fight against the “epidemic” started, the Group responded quickly, stuck to the front line of water supply and drainage, fulfilled the mission and responsibility of employees of Xinglu Water, “fought the epidemic on all fronts and spared no effort to safeguard the water supply”, and comprehensively ensured the safety of urban water supply.

The Company established a commando team to fight the “epidemic” by opening the water supply and life channel. During the epidemic period, we received requests for help from many hospitals and medical quarantine point projects in succession. The Company urgently made arrangements and deployment, quickly established a commando team comprised of more than 50 people, allocated and transported machinery, equipment, pipes and other materials, and engaged in emergency water supply projects to fight the “epidemic”. The Company carried out emergency construction in many temporary medical quarantine points in Jiangyang District and Lu County, and actively cooperated with relevant units to open up the water supply and life channels to ensure water demand in the first time.

The Company ensured the safety of water supply in the “whole line” from the water source to the water faucet. More than 200 employees given up their holidays to worked hard on the front line of water supply. They concurrently focused on epidemic prevention and control and water supply security, knitted a dense net for the epidemic prevention and control, and unblocked the water supply lifeline, to enable the vast number of users who stayed at home for epidemic prevention and control to set their mind at rest. In the water production, relevant personnel took the lead in being on duty, and took the initiative to assume such work as “Security officer”, “Sterilizer”, “part-time” body temperature detection, personnel investigation and other epidemic prevention work to effectively prevent and control the epidemic. The team in charge of the pipe network maintenance was even more ready in full battle array, and stayed on duty throughout the day to strengthen the patrol and inspection of the pipe network, and guard the water supply vein of urban pipe network at all times. The Company’s party committee took the initiative to set up a special inspection team for the secondary water supply facilities to comprehensively investigate the facilities and equipment operation, pool cleaning, and water quality testing of the secondary water supply community subject to the unified management within the jurisdiction, set up a service team to enter the community, comprehensively cleaned the secondary water supply pump room, and strengthened the patrol inspection to ensure the safety of the “last kilometer” of water for users.

The Company arranged employees on duty to awaiting orders for 24 hours, and provided online warm service all the time, responding to the users’ needs in real time, and answering their questions in a timely manner. We have launched various online payment channels, such as WeChat, Alipay, mobile banking, online banking, online business halls, etc., to facilitate users to pay water bills and handle business without leaving their homes, and suspended the implementation of such provisions as cutting off the water supply for payment in arrears, and paying liquidated damages, so as to ensure “the water supply even in case of payment in arrears” during the anti-epidemic period.

In this fight against “epidemic” without gunpowder, we had our wills unite like a fortress to overcome the current difficulties, took the lead in demonstration, led the charge and built a grassroots battle fortress, to protect the lifeline of water supply with all our strength.

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

### 1. Standard Based and Best Service

The Company adhered to the core value of “Innovation and Excellent, Harmony between Human and Water”, and was dedicated to constantly improving the quality of its products and services through strict product quality and service management systems. It proactively assumed social responsibilities, and provided high-quality, safe, and secure tap water.

#### 1.1 Water Supply

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 Regulation for Health Protection Management, and other relevant management provisions to assure water quality. The Company had passed the ISO 9001 quality management system certification. In addition, the Company established internal control indicators for water quality, and implemented stricter quality test standards for the quality of finished water to ensure the provision of high-quality and safe tap water for urban development and citizens’ lives.

During the Reporting Period, the company’s daily water supply amounted to approximately 639,000 tons. The testing by all levels of the Company had been well executed, with pass rate of 100%.

- *Safe Water Intake*

The Company sourced water from the Yangtze River. The Company carried out online monitoring and on-site testing of water quality throughout the whole process from water intake to water delivery. Online measuring equipment was installed in each production link to measure turbidity, residual chlorine and PH value of raw water, pre-filtered water, filtered water and finished water respectively, and the relevant data was sent back to central control room for record. Personnel on duty went to the site to test all water quality indicators and recorded and check them every hour; the staff of the water quality testing station tested and recorded water quality every day to ensure the safety of water quality.

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

- *Clean Water Production*

The Company produced tap water strictly in accordance with the Sanitary Standard for Drinking Water (GB5749–2006) and other relevant provisions, carried out the whole-process monitoring, and tested raw water, process water, finished water, and water at end of the pipe network, to ensure safe drinking water. We implement a three-level testing system for water quality, and strictly implement the requirements of the national Sanitary Standards for Drinking Water:

- 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;
- The second level is sampled and tested by the Luzhou Monitoring Station of the Sichuan Water Supply and Drainage Water Quality Monitoring Network;
- On the third level, the health department is responsible for supervision and testing.

- *Stable Water Supply*

To further improve the water supply capacity, the Company achieved stable water supply by such means as planning water supply dispatching, managing the emergency response plan, implementing water meter audits, and supplying water by high-efficiency units. The specific measures were as follows:

- Before the peak of water supply came, prepare a water supply dispatching scheme and carry out drills in advance to ensure the smooth dispatching of the peak water supply; before the arrival of summer, effectively carry out the equipment maintenance and water-production materials reserve work in advance to ensure the smooth water supply;
- Organize various emergency response plans and emergency supplies related to production safety, equipment failure, raw water abnormality, etc., respond to emergencies in a timely manner, and ensure normal and orderly water supply;
- Conduct monthly water meter audit and inspection, such as meter management, patrol (leakage detection) of pipeline network, weekly water meter inspections, secondary water supply, universe water supply, etc., and rectify problems found in a timely manner;
- Use the combination of high-efficient units to fully safeguard the stable water supply while reducing energy consumption.

**Case: Supply Safe Tap Water for 340,000 Rural People**

The Company cooperated with the Jiangyang District Government to implement the “Universe Safe Water Supply” project, which was invested with 440 million yuan and took two and a half years. This project achieved 100% coverage of the water supply pipeline network through the extension of urban pipe network to the countryside, and the penetration rate in water access regions reached more than 90%, completely solving the drinking water difficulties of 340,000 rural residents in Jiangyang District.

The universe water supply pipe network has covered all townships in Jiangyang District. A total of 100 kilometers of main water supply pipes and 3,200 kilometers of main water distribution pipes and back-meter pipes have been installed; 11 new pressurization stations have been installed; water meters were installed for 35,000 new users, and water supply for 57,000 users have been improved. 15 towns (streets) in Jiangyang District were provided with safe and high-quality tap water. In addition to the construction of engineering projects, the Company will stick to do a good job in water supply management, water supply services, and water supply safeguard in Jiangyang District, create a modern and safe water supply system integrating water supply, management and service for Jiangyang District, and provide all-round safe and high-quality water supply service for Jiangyang villagers, making incremental contributions for Luzhou regional economic and social development.

“We are concerned about the safe drinking water of the people, and undertake our responsibilities in exchange for the spring of happiness”. Relying on current professional technical capability, we have successfully solved the drinking water problems of rural residents, and actively undertaken the corporate social responsibility for improving local water use.



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

- *High-quality Service*

“Refreshing the customer experience with true feelings and interpreting the harmony between human and water with actions” was the service concept that the Company constantly followed. We have formulated internal systems such as the Management Measures for Customer Service Hotline, the Manual of the Company on the Management of Quality, Environment, Occupational Health and Safety System and other internal systems to focus on customers, standardize service procedures, strengthen customer communication, and continuously improve service level. During the Reporting Period, we took a number of measures to continuously optimize customer service:

- Organize the information sessions on related systems and policies, such as 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, enhance employees’ understanding of customer service, and improve their professional quality;
- Continuously communicate with customers relying on 24-hour duty hotline, online business hall, WeChat public account, government affairs center and other channels. The tracking of the whole process from the receipt of the call to the return visit of the user can be achieved at the time of processing and solving customer problems;
- Conduct regular customer satisfaction surveys to truly understand customer feelings and evaluation, and analyze customer feedback in depth to improve service quality;
- Clarify complaint handling specifications, strictly abide by customer complaint handling process and procedures, regulate the efficient solving of customer problems, and improve service;
- Constantly improve the after-sales service, strengthen the management of water quality and water pressure and the communication and handling of repairs and consultations of users, and require employees to provide smiling service for customers to build a good service image.

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

### 1.2 Wastewater Treatment

The Company 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), and the Technical Specifications Anaerobic-Anoxic-Oxic Activated Sludge Process(HJ576–2010), formulated the Compilation of Production Management System, and realized the efficient wastewater treatment through advanced treatment technology.

During the Reporting Period, the total wastewater treatment capacity of the Company reached 139.5 million tons.

- *High-efficient Treatment Technology*

The Company attached great importance to the development of wastewater treatment technology, formulated the Management Measures for Testing and Promoting New Technologies to regulate the test, promotion and follow-up management of new technologies for wastewater treatment, and proactively explored advanced technology in the relevant field.

- *Assuring Water Quality*

The Company has always been committed to standardizing the management of wastewater treatment to ensure the qualified water quality. We established 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 (80% of the effluent standard). Each branch set up a laboratory in charge of routine testing of water quality and on-line monitoring dosage of the equipment, and was equipped with water inlet and outlet on-line monitoring equipment to promptly master the quality indicators of inlet and outlet water. In addition, all production and operation sites were equipped with instruments for main production and operation parameters, such as solved oxygen, sludge concentration, oxidation-reduction potentiometer, etc., to reflect the production and operation condition in real time. During the Reporting Period, the effluent quality after wastewater treatment by the Company reached level A of the first class standard of Emission Standard of Pollutant for Urban Sewage Treatment Plant (GB18918–2002).

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

### 2. Green Operation and Sustainable Development

The Company has always adhered to the concept of green development. As an environment-friendly enterprise, it has continuously strengthened its ecological and environmental protection, improved its sustainable development capabilities, and proactively assumed the corporate responsibility of green development.

#### 2.1 Focus on Emission Management

The Company optimized the emission management 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 People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Standard for Pollutant Discharge of Urban Sewage Treatment Plant (GB18918-2002), and the Standard for Operation and Maintenance Quality Assessment of Municipal Wastewater Treatment Plant (CJJ/T228-2014).

During the Reporting Period, the Company was 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 adopted a number of measures to reduce greenhouse gas emissions. For specific measures, please refer to "2.2 Strengthening of Resource Management" in this report.

In terms of exhaust gas emissions, the tap water supply business of the Company consumes no fuel, and a certain impact on the surroundings is mainly caused by the disorderly discharge of chlorine that may be generated during storage and chlorine-adding process. The main measures we have taken included:

- Adopted the method of on-site preparation of chlorine dioxide to effectively avoid the leakage of liquid chlorine and raw materials for preparation of the chlorine dioxide;
- Reasonably stored the raw materials for production of the chlorine dioxide, independently stored them and set cofferdams around them, and created a tight storage environment to prevent the leakage of raw materials;
- To monitor and detect leakage, we installed vacuum sealing device, chlorine leakage alarm and absorption device in the chlorine reservoir, and took effective measures for dealing with leakage in a timely manner.

## 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. Regarding this type of emissions, the Company adopted multiple energy-saving measures. For details, please refer to “2.2 Strengthening of Resource Management” in this report.

The exhaust emission from wastewater treatment business of the Company is mainly the foul gas generated during the wastewater treatment process. We reduced the foul gas arising from the wastewater treatment process by taking such measures as setting a safe distance, increasing the green area and installing the odor eliminator for the purpose of protecting the ecological environment.

- *Waste Management and Emission Reduction*

The Company strictly complied 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 other relevant laws and regulations, internally formulated the Management System for Hazardous Waste, the Hazardous Waste Contingency Plan, and the Hazardous Waste Management System of Xinglu Wastewater Treatment Co., Ltd., and established a sound waste management mechanism, achieving compliance and orderly disposal of wastes.

The Company conducted centralized collection and classified storage of the wastes, ensured the consistency between the relevant accounts and the fact, standardized records, and carried out compliance disposal. We established the waste reporting and registration system to investigate and register the type, amount, concentration, means and destination of discharge of the wastes, and established the pollution source files for reporting and registration. We implemented the quantitative management system for waste discharge, 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. We formulated various measures for the management of hazardous wastes generated by the water supply business:



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

- Set up a seepage-proofing and leakage-proofing storage for hazardous wastes, build cofferdam at the corresponding storage points, and store hazardous wastes by category, indicating the type, hazard and weight. Reagent bottles containing hazardous wastes were uniformly disposed according to the disposal method of hazardous wastes;
- Formulate hazardous waste management systems and hazardous waste emergency plans, and specify the responsibilities of each person through announcement conference;
- Establish the Hazardous Waste Record, and the detectors truthfully filled in the amount of hazardous wastes generated, and the monitoring station made statistics on a quarterly basis. At the end of the year, the actual amount was counted twice, and it was uniformly handed over to a qualified third-party organization for centralized processing.

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. For the management of non-hazardous waste arising from water supply business, we adopted a number of effective measures:

- Concentrate the sludge arising from concentration and dehydration of the high turbid wastewater discharged from the settling pond and filter chamber, and then dehydrate and dry it with the vacuum filter or centrifugal machine before delivering to the construction waste landfill for disposal;
- Containers of reagent were delivered to and disposed at the waste treatment plant together with the domestic waste after being cleaned.

### 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 transfer and disposal.

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

The non-hazardous wastes generated by wastewater treatment business of the Company are mainly domestic sludge generated by wastewater treatment, and the following treatment measures are mainly adopted:

- Concentrate and dehydrate the sludge before delivering to a qualified third-party landfill for unified sanitary dumping to realize harmless disposal of the sludge;
- Reduce water content of the sludge through sludge drying and centralized treatment to reduce the mass and volume of the sludge, realizing the reduction of the sludge;
- Cooperate with third parties such as the brick factory to make sludge into bricks, utilizing sludge as resources.

Name of Indicator	Unit	2020	2019	2018
Total emission of greenhouse gas emission <sup>1</sup>	(ten thousand tCO <sub>2</sub> e)	<b>17.44</b>	16.02	12.97
Greenhouse gas emission density	(tCO <sub>2</sub> e/RMB million)	<b>69.16</b>	77.51	106.51
Generation of hazardous waste	(ton)	<b>42.84</b>	31.75	19.08
Density of hazardous waste <sup>2</sup> generation	(kg/RMB million)	<b>16.99</b>	15.36	15.66
Generation of non-hazardous waste <sup>3</sup>	(ten thousand tons)	<b>21.34</b>	11.38	10.19
Density of non-hazardous waste generation	(ton/RMB million)	<b>84.62</b>	55.05	83.63

<sup>1</sup> The emission of greenhouse gas was calculated based on the GHG Protocol-Enterprise Calculation and Reporting Standard issued by the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) and the Fifth Assessment Industrial Enterprises (Pilot) issued by the Intergovernmental Panel on Climate Change (IPCC), in which Chinese Regional Power Grid in Annual Emission Reduction Project 2019 issued by the Ministry of Ecology and Environment.

<sup>2</sup> In 2020, the Company's new testing equipment, the increase of monitoring frequency and other reasons led to the increase in waste liquids and waste samples generated in laboratory tests, and therefore the generation of hazardous waste increased.

<sup>3</sup> In 2020, the Company's site excavation work and technical renovation projects led to the increase of the amount of muck, waste rock, and construction waste, and therefore the generation of non-hazardous waste increased.

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

### 2.2 Strengthening of Resource Management

The Company optimized the utilization of resources strictly in accordance with the laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Law on Prevention and Control of Water Pollution of the People's Republic of China, and the Standardization Law of the People's Republic of China. While providing clean water for the environment and society, the Company improved the rate resource utilization through the implementation of effective resource management, achieving the overall sustainable development of the enterprise, industry and society.

Main energy consumption of the Company was the electricity for production and daily office work. The Company adopted various conservation and optimization initiatives in energy use and water resource management. The Company is mainly engaged in water supply and wastewater treatment business, without consumption of finished products and packaging materials.

- Water Supply Business
- The Company paid close attention to strengthening process supervision and management, and required all water supply plants to establish 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 to ensure that the energy consumption indicators are normal;
  - Strengthen the transformation, update and maintenance of equipment. During the Reporting Period, the Company renovated the 3# unit of the water intake pump station of the Nanjiao Water Plant to improve the efficiency of the pump; at the same time, it replaced the 3# and 5# water pumps and hydraulic control weighted valves of the Beijiao Water Plant, and 5# water pump and slow-closed hydraulic control brake valve of the water supply pump station, effectively improving the production efficiency and reducing the electricity consumption of water intaking;
  - Realize real-time supervision and control of power consumption and data collection through the Internet + production management, and discover data exception in a timely manner and deal with it. Possessing the statistical analysis of data over the years was conducive to finding out the laws of the data, which greatly improved the work efficiency, thus reducing the power consumption;
  - The power consumption target was set according to the pump efficiency of each water plant and in combination with the calculation of water supply at different districts and different pressures, and the monthly and annual power consumption targets were assessed.

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

- Wastewater Treatment Business
- Establish the Compilation of Production Management System and the System of Monthly Statement of Production Energy Consumption, and hold production and operation analysis meeting every month to understand the energy consumption changes and reasons therefor in depth, so as to further optimize the resource utilization;
  - Reduce the electricity consumption by controlling the dissolved oxygen and sludge concentration during the production and starting and stopping the lift pump at high level;
  - Pay close attention to the statistical analysis of energy consumption data, conduct regular monitoring, and establish energy consumption target assessment;
  - Proactively promote the implementation of advanced technologies, strengthen energy resource management through technological progress to achieve energy conservation and emission reduction.
- Green Office
- Prohibit incandescent lights, reasonably set up computer operation mode and air-conditioning temperature to avoid waste of electricity caused by the unnecessary operation of equipment such as lighting, air-conditioning and computers;
  - Encourage employees to take low-carbon trips, use public transport to commute, and help save energy and reduce emissions;
  - Advocate the use of online office management system and platform, optimize the Company's online approval process, reduce the amount of printing paper and proactively promote the recycling of office supplies.

Name of Indicator	Unit	2020	2019	2018
Diesel	(ten thousand liters)	<b>3.35</b>	4.69	1.79
Gasoline	(ten thousand liters)	<b>11.30</b>	10.96	12.11
Natural gas	(ten thousand m <sup>3</sup> )	<b>3.12</b>	3.33	3.54
Acetylene	(kg)	<b>390</b>	949	1,211
Purchased electricity	(ten thousand kWh)	<b>13,399.76</b>	12,957.76	11,178.54
Liquefied petroleum gas	(kg)	<b>2,161.00</b>	4,111.00	2,250.00
Comprehensive energy consumption	(ten thousand tce)	<b>1.66</b>	1.62	1.39
Comprehensive energy consumption density	(tce/RMB million)	<b>6.60</b>	7.81	11.44

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

### 2.3 Water Environment Protection

As a water service enterprise, the Company pays great attention to water environmental protection. The Company, strictly in accordance with relevant laws and regulations such as the Water Law of the People's Republic of China, the 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 in combination with its own business characteristics, incorporated environment and natural resources protection into its business operation, and carried out a comprehensive and whole-process identification and evaluation of the environmental factors, to fully reduce the impact of business operation on the environment and respond to the national call for "clear waters and green mountains".

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*

To ensure the efficient and safe use of water resources, the Company strictly complied with relevant national laws and regulations, actively protected the water intake environment, safeguarded the safety of the water intake source, and adopted various measures for water use and drainage to strengthen water resources management.

#### Water Use Management

We used water resources in strict accordance with relevant national standards and regulations. The water production and supply plants strengthened the management and control of auxiliary water, adopted the method of recycling the supernate from the backwash water and sludge water after the recycling by the sludge system as much as possible to reduce the use of auxiliary water; set up daily tracking records to supervise the auxiliary water ratio during the production, monthly conducted contrastive analysis of the auxiliary water on a year-on-year basis and month-on-month basis to ensure that the indicator is normal, and conducted the target assessment in combination with the monthly and annual targets of the auxiliary water ratio. In addition, the wastewater treatment plant supplied water for greening and production by the reclaimed water reuse system to reduce water consumption.

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

### Drainage Management

We carried out the drainage management strictly in accordance 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 Sewage Treatment. We discharged the bottom mud arising from water production strictly in accordance with the provisions, recycled the supernate of the bottom mud after concentration, and made the slurry at the bottom into mud cake through centrifugal dewatering before delivering outside for harmless disposal, to reduce the pollution on water resources during drainage.

- *Water Resource Protection*

The Company formulated the Patrol System of the Water Conservation District, improved the water source protection management mechanism, and effectively protected the water source and ecological environment in the place where it operated. During the Reporting Period, the Company adopted various water source protection measures:

- Carry out drills on sudden pollution accidents of the raw water quality of the Yangtze River, formulate relevant emergency plans, and conduct training and drills for employees to improve emergency response capabilities. During the flood peak period, the Company arranged relevant persons in charge to be on duty, and required the on-duty personnel of each production site to strengthen patrol. The main persons in charge of each production site and the Company kept the communication open and strengthened water source protection;
- The staff on duty at the water intake pumping station conducted daily patrol of the first-level water source protection area to assist the government in cleaning up white garbage. In 2020, the water source protection area cleaned up about 11.5 tons of garbage and debris;
- Proactively publicize the knowledge of drinking water source protection area and related systems, carry out activities with the theme of “green travel, low-carbon and environmental protection”, and conduct trainings on relevant knowledge, laws and regulations such as the Law on Prevention and Control of Water Pollution and Patrol System of the Water Source for water plant employees; during the Reporting Period, the Company planted 90 trees to protect the water and soil of the place where it operated.

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

In addition, in order to reduce other environmental pollution during operation, the Company formulated a series of environmental protection measures to fully protect the living environment around the construction site.

- **Dust:** Spray water regularly to remove dust on the construction site every day, and clean and flush the transport channel in a timely manner. The commercial concrete is used during construction and the stacking of dusty materials in the open air is avoided. When the construction muck is transported outside, it shall be covered to prevent the residual muck from being spilled;
- **Noise:** Choose low-noise equipment and plan the construction time reasonably. It is forbidden to construct at night within 200m of the residential building. For other construction sites that may affect the surrounding residents, noise reduction measures such as the establishment of temporary sound barriers are adopted. The number and density of cars in the construction area are reduced as far as possible, and construction vehicles use light for warning with no honking at night;
- **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;
- **Odor arising from dredging:** Use wet dredging and minimize construction disturbance. After the dredging is completed, the construction site and working plane should be cleaned in a timely manner to reduce the generation of odor arising from dredging. A timely cleaning is conducted after the completion of dredging. When the biochemical tank is removed, the existing closed tank cover is opened in the order of transformation and is closed in a timely manner to reduce the exposure time;
- **Construction quality:** The project contractor provides temporary accommodations for labor in the temporary work area, strengthens education for construction personnel, advocates not throwing litter at will, and guarantees the sanitation quality of workers' work and living environment. In response to the problems caused by the environmental impact during construction, the Company negotiates and mediates in a timely manner by organizing liaison meetings with construction units, streets and owners.

**Case: Environmental Protection Expert Peng Yingdeng Visited Xinglu Wastewater Treatment for Research and Investigation**

On August 10, 2020, the delegation led by Peng Yingdeng, a researcher from the National Urban Environmental Pollution Control Technology Research Center and an expert of environmental assessment and environmental protection verification from the Ministry of Environmental Protection, visited Xinglu Wastewater Treatment for research and investigation.

At the symposium, the researcher conducted in-depth exchanges with the Company on water-related laws and regulations, pollution source regulation and treatment, industrial development trends and other aspects in combination with the national water pollution control and treatment policies and the requirements of environmental protection supervision, shared the experience of advanced enterprises in the treatment and regulation of industrial wastewater, emergency response to abnormal conditions of pollution control facilities, and change of environmental assessment for pollution control projects with respect to the resolute fight against the battle to keep skies blue and waters clear and strict implementation of the Law on Prevention and Control of Water Pollution, and highly recognized the Company in regulating the operation and giving full play to the ecological demonstration role of “the First Pass of the Yangtze River out of Sichuan”. Meanwhile, the researcher put forward constructive suggestion for the Company in building a deep integration platform of industry-university-research, and hoped that the Company will form a “cross-domain + government-enterprise” dual cooperation mode, promote the joint prevention and treatment of transboundary water pollution, and create strategic space for stable and sound development of enterprises.

Based on the corporate development vision, the senior management team of Xinglu Wastewater Treatment proposed that the Company will continue to implement the concept of green development and continue to uphold the business philosophy of “water pollution treatment is beneficial to the water environment”, and will be commit itself to the main business of water pollution treatment, in order to ensure that a river of spring water flows eastward, and build a solid green ecological environmental protection barrier.





**Case: “Fighters in Blue” Carried out the Dredging to Restore Green Environment and Fought for Protecting Their Homeland**

After the flood peak of the Yangtze River on “August 19” passed, Luzhou fully lifted the emergency response to flood control from 8 o’clock on August 20, and promptly launched the post-disaster reconstruction work in the scenic belt of Binjiang Road in the worst-hit area.

The Company proactively responded and took actions quickly. Within 20 minutes, more than 40 “fighters in blue” were urgently assembled to form a party member voluntary service team equipped with dredging materials such as shovel, broom, boots, and gloves. They rushed to Match Factory in Binjiang Road, and devoted themselves to the front line of post-disaster reconstruction in the area. The employees of Xinglu Water bore hardships and stood hard work, and led in the charge. According to the on-site command and dispatch, they were divided into two groups. One group was responsible for washing the green belt and the silt covering the road with fire hoses, while the other group was responsible for using shovels and brooms to clean the road by matching with water pressure. To remove the silt and replant plants as soon as possible, and restore the function of the river view footpath, employees of Xinglu Water were united as one, and did their utmost to ensure the safety of the people’s lives and property.

After nearly four hours of hard work, the road was restored to its original condition. Volunteers took practical actions to protect the beautiful homeland and practice corporate social responsibility.



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

Name of Indicator	Unit	2020	2019	2018
Amount of water intake for water production and water supply business	(ten thousand tons)	<b>17,971.00</b>	16,348.69	14,007.61
Total water consumption for production and office	(ten thousand tons)	<b>742.90</b>	919.23	713.40
Water consumption density	(ten thousand tons/RMB million)	<b>0.29</b>	0.44	0.59
Consumption of purifier	(ton)	<b>1,916.03</b>	1,732.83	1,964.65
Utilization rate of bottom wastewater during water production and supply	(%)	<b>16.12</b>	17.33	20.13
COD emission reduction of urban wastewater	(ten thousand tons)	<b>2.05</b>	1.68	1.25
BOD emission reduction of urban wastewater	(ten thousand tons)	<b>0.92</b>	0.81	0.64
Ammonia nitrogen emission reduction of urban wastewater	(ten thousand tons)	<b>0.23</b>	0.20	0.16
Total phosphorus emission reduction of urban wastewater	(ton)	<b>299.17</b>	283.20	211.62
Amount of office wastewater discharge	(ten thousand m <sup>3</sup> )	<b>19.01</b>	23.11	17.08
Number of environmental protection trainings organized or attended	(time)	<b>79.00</b>	57.00	48.00
Number of personnel attending environmental protection training	(person-time)	<b>2,422</b>	1,473	1,682

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

### 3. Focus on Employees and Help Them to Grow

The Company actively provided a broad platform for employee development, cared about and safeguarded the health, rights and interests of employees, and integrated the realization of employees' self-worth with the development goals of the Company, forming a corporate atmosphere of equality, mutual benefit, harmony and unity of "happy work, and happy life".

#### 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 and improved internal systems such as the Management Measures for Employee Recruitment, the Management Measures for Labor Contract, and the Management Measures for the Selection and Appointment of Middle-level Cadres, to observe the principle of equal employment and effectively safeguard legal rights and interests of the employees.

- *Equal Employment*

The Company strictly regulated the recruitment, introduction, selection and appointment of employees to ensure fair and transparent recruitment. The Company formulated a recruitment implementation scheme to clarify the recruitment conditions and implementation steps, and conducted a preliminary screening of applicants as per recruitment needs. It carried out the investigation from the work professional ability, work attitude, stability, compliance and other aspects, and resolutely opposed discrimination based on gender, age, health and other factors, in order to strive to achieve employment equality and diversification.

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

Name of Indicator		Unit	2020	2019	2018
Total number of employees		(person)	<b>1142</b>	940	747
Number and ratio of employees by gender	Male	(person)	<b>761</b>	615	480
		(%)	<b>66.6</b>	65.43	64.26
	Female	(person)	<b>381</b>	325	267
		(%)	<b>33.4</b>	34.57	35.74
Number and ratio of employees by employment type	Full-time	(person)	<b>1142</b>	940	–
		(%)	<b>100</b>	100	–
	Part-Time	(person)	<b>0</b>	0	–
		(%)	<b>0</b>	0	–
Number and ratio of employees by age	Below 30 years old	(person)	<b>198</b>	181	146
		(%)	<b>17.3</b>	19.26	19.54
	31–50 years old	(person)	<b>733</b>	614	500
		(%)	<b>64.2</b>	65.32	66.93
	Above 50 years old	(person)	<b>211</b>	145	101
		(%)	<b>18.5</b>	15.43	13.52
Number and ratio of employees by education background	Doctor degree	(person)	<b>1</b>	1	1
		(%)	<b>0.1</b>	0.11	0.13
	Master degree	(person)	<b>10</b>	7	8
		(%)	<b>0.9</b>	0.74	1.07
	Bachelor degree	(person)	<b>266</b>	246	196
		(%)	<b>23.3</b>	26.17	26.24
	Below bachelor degree	(person)	<b>865</b>	686	542
		(%)	<b>75.7</b>	72.98	72.56
Number and ratio of employees by region	Sichuan Province	(person)	<b>1124</b>	924	703
		(%)	<b>98.4</b>	98.30	94.11
	Chongqing	(person)	<b>7</b>	6	15
		(%)	<b>0.6</b>	0.64	2.01
	Places outside Sichuan Province and Chongqing	(person)	<b>11</b>	10	29
		(%)	<b>1.0</b>	1.06	3.88
Number and ratio of minority employees	Minority employees	(person)	<b>32</b>	7	7
	Percentage of minority employees	(%)	<b>2.8</b>	0.74	0.94

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

- *Safeguarding Employees' Rights and Interests*

In order to fully mobilize the enthusiasm and creativity of employees and build a harmonious labor relationship, 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, the Management Measures for Overtime and Overtime Salary, the Management Measures for Compensation Budget (Final Accounts), the Management Measures for Employee Leave and other internal systems, in order to ensure that employees' legitimate rights and interests are fully protected in terms of compensation management, working hours management, and employee benefits, and create a good platform for the growth and development of employees.

In terms of compensation management, while formulating a compensation system for employees and setting up a multi-level compensation for employees, the Company set up a compensation structure including basic salary and performance bonus; in terms of working hour management, the Company safeguarded the rights of rest and vacation of the employees according to the national provisions. If the working hours exceed the legal working hours stipulated by the state, the Company will pay overtime wages for the overtime work in combination with the Company's relevant systems; in terms of employee benefits, the Company provided employees with education and training, labor insurance benefits, birthday blessing, festival greetings and other benefits. In addition, while purchasing the five social insurances and one housing fund for employees who sign labor contracts according to the law, the Company purchased additional "Employee Mutual Medical Insurance" for each employee, and provided employees with transportation subsidies, paid vacations, annual physical examinations, etc., safeguarding the rights and interests of 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 strictly complied with national laws and regulations, carefully checked the identity of candidates and identified the true age of candidates during the recruitment to ensure that candidates' entry qualifications meet legal requirements. In case that a violation is found, actions will be taken to actively deal with such matter to ensure the smooth operation of the Company's talent system.

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	2020	2019	2018
Annual turnover rate of employees		(%)	<b>1.77</b>	10.54	5.54
Turnover rate of employees by gender	Male	(%)	<b>1.22</b>	8.96	5.60
	Female	(%)	<b>2.98</b>	13.71	5.43
Turnover rate of employees by age	Below 30 years old	(%)	<b>3.91</b>	19.78	13.77
	31–50 years old	(%)	<b>1.83</b>	7.59	4.00
	Above 50 years old	(%)	<b>0.00</b>	13.27	0.00
Turnover rate of employees by region	Sichuan Province	(%)	<b>1.77</b>	10.49	5.84
	Chongqing	(%)	<b>0.00</b>	0.00	6.25
	Places outside Sichuan Province and Chongqing	(%)	<b>0.00</b>	12.50	0.00

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

### 3.2 Employee Development

The Company has always been committed to building a platform for the growth of employees, firmly establishing the awareness of mutual progress between the Company and employees, constantly improving the working ability of employees, and innovating talent cultivation methods, in order to promote the long-term development of the Company.

- *Employee Training*

To strengthen the internal education and training and continuously improve the quality of the staff, the Company, in light of the actual situation, formulated the Management Measures for Internal Trainers, which clarified the selection, assessment, management and incentive of internal trainers, effectively giving full play to the important role of internal trainers in the Company's staff training. At the same time, the Company revised and deliberated the Management Measures for Employee Education and Training to assist in promoting the improvement of employees' comprehensive quality and business ability.

At the same time, in order to strengthen the construction of the Company's grassroots management team and improve the overall quality of the grassroots management personnel, the Company organized the grassroots management personnel in two batches to participate in a 7-day off-duty training at the Sichuan Vocational College of Chemical Technology, and organized four batches of managers and employees to Ziyang, Chengdu, Neijiang, and Mianyang to carry out investigation and study activities. This investigation covered the administrative management, human resource management, financial management and production safety management, and other contents. Those managers and employees consolidated the study achievement through summary meetings and applied it to the Company's daily management and operation. For middle and senior management personnel, the Company organized centralized participation in management ability improvement and investment and financing awareness training to improve their business level and work ability.

In addition, the Company attached great importance to the industry-university-research cooperation and development, and has signed "Industry-University-Research" university-enterprise cooperation agreements with School of Environment, Tsinghua University, College of Environment and Ecology, Chongqing University, and Sichuan Vocational College of Chemical Technology, to promote the Company to achieve high-quality development, transformation and upgrading.

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

- *Employee Promotion and Assessment*

For the purpose of helping employees to clarify their career development paths, the Company established a dual-channel career development system to provide smooth career development channels. Employees can reasonably choose their own career development path based on factors such as position, level, ability and willingness. In accordance with the Measures for the Implementation of Performance Appraisal, the Company carried out assessment monthly, quarterly, and annually and promoted those with excellent performance. In addition, the Company strictly implemented the Management Measures for Adjustment of Salary Grade and Level, stipulated the career development plan and promotion standards for employees from the four perspectives of management, technology, production and service, and function, and organized the supplementary evaluation of the production operation and management service post skill level, to ensure the fairness and transparency of the promotion of employees.

In addition, the Company paid close attention to the cultivation of senior management personnel, and formulated the Management Measures for the Selection and Appointment of Middle-level Cadres, the Management Measures of Reserve Talents and other internal systems to standardize the employment and promotion of management personnel. The Company adopted external introduction as the main recruitment means and internal competition for posts as the supplementary recruitment means to attract talents, selected talents in a fair manner and determined the talents strictly in accordance with the Company's deliberation process.



**Case: The Group Organized and Carried out the Business Capability Improvement Training for Internal Trainers (TTT)**

To help internal trainers to master professional methods and skills in curriculum development and design, teaching skills, stage presentation and after-class evaluation, improve the quality of the Company's internal trainer team, effectively promote the internal education and training of employees, precipitate the Company's wisdom, and inherit the corporate culture, the Company organized and carried out the special training of "Business Capability Improvement of Corporate Internal Trainers (TTT)" from December 4 to December 5. This training adopted an interactive teaching mode to enable students to play the role of scriptwriter, director, and actor in the training process through group discussions, competitive competitions, case analysis, scenario simulation, on-stage exercises, and game interaction, and other activities which were fun and inspiring, so as to guide students to actively understand the pain points, itchy points and key points of development and design and on-site teaching skills in the training course.



Through the multiple participation methods of "teaching-learning" and "learning-practice", the course design ideas of the Company's internal trainers were inspired, and the teaching skills of the internal trainers were cultivated. Enabling the internal trainers to act as the Company's experience transmitter, skill trainers, business promoter and corporate culture speaker will be more conducive to the cultivation of the Company's talents and the improvement of comprehensive quality.

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

Name of Indicator	Unit	2020	2019	2018
Total number of trainings	(time)	<b>537</b>	154	155
Total attendees	(person-time)	<b>10,040</b>	7,760	3,349
Amount of training expenditures	(RMB ten thousand)	<b>63.93</b>	67.70	51.44
Average training time per employee	(hour/person)	<b>103.83</b>	393.50	5.85
Average training time per male employee	(hour/person)	<b>114.40</b>	312.32	7.11
Average training time per female employee	(hour/person)	<b>82.70</b>	306.98	6.58
Average training time per front-line employee	(hour/person)	<b>100.67</b>	387.08	2.75
Average training time per mid-level employee	(hour/person)	<b>170.43</b>	479.44	31.79
Average training time per senior-level employee	(hour/person)	<b>141.50</b>	631.14	73.20

### 3.3 Safeguarding Health and Safety

The Company attached great importance to production safety and employee health and safety, 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, improved production safety and occupational health and safety system, perfected the management of production safety and occupational health systems, and fully did a good job in safety risk prevention and control, to ensure production safety and occupational health of employees.

- *Putting Safety Production into Practice*

The Company formulated the systems such as the System for the Targeted Management of Production Safety and Targeted Assessment Management, the Management System for Production Safety Accountability System, and the Occupational Health Management System, and constantly improved the safety production standardization system:

- At the end of 2020, the Company passed the review and certification of OHSAS18001 Occupation Health Safety Management System;
- The Group's headquarter, Hejiang Water, Nanjiao Water, Beijiao Water, and Fanxing Environmental continued to carry out safety and environmental protection work in accordance with enterprise safety production standardization (level 2);
- The Sewage Treatment Company carried out comprehensive, holiday, seasonal, professional, and routine safety, environmental protection, and occupational health inspection and hidden risk control on schedule strictly in accordance with the Annual Work Program of Identification of Hidden Risk of Safety and Environmental Protection.

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

CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)



Safety Inspection

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

- *Safeguarding Employees' Health*

The Company established a perfect occupational health and safety system, and continuously improved the working environment and office environment for employees. During the Reporting Period, we took various measures to effectively implement safety responsibilities:

- Organize the employees to sign the Safety, Environmental Protection, and Occupational Health Responsibility Agreement every year, regularly carry 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;
- Provide employees with necessary protective equipment, such as oxygen breathing apparatus, protective clothing and other protective equipment at all relevant production sites;
- Organize annual comprehensive physical examination for employees, insist on monitoring the hazard factors of occupational diseases and carrying out physical examination for employees every year to effectively safeguard occupational health of the employees. The occupational health management team of the Sewage Treatment Company strictly implemented the Occupational Health Management System, 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;
- Employ a testing agency with relevant qualifications to conduct occupational hazard factors testing at each production site every year. The testing results showed that the occupational hazard factors exposed in the production process of the Company met the safety standards.

### **Case: People-oriented, life first – The Group organizes and participates in occupational health training**

On September 9 and September 10, 2020, The Group actively organized the group company and its subsidiaries in accordance with the spirit of the document Notice on Carrying out Occupational Hygiene Training for Employers in 2020 by the Jiangyang District Health Bureau of Luzhou City. A total of 34 health management personnel participated in the 2020 occupational health training in Jiangyang District, Luzhou City.

The Group always adheres to the people-oriented and life-first safety production concept, attaches importance to the occupational hazards that the majority of employees are exposed to in their daily work, adheres to the basic policy of “prevention first, combined prevention and control” as the basic policy and the principle of “classified management and comprehensive management”. Take legal measures, organizational measures, technical measures, and health care measures to prevent and control occupational damage.

Through this training, the Company’s occupational health management personnel have comprehensively improved their professional knowledge and capabilities, recognized the importance and necessity of occupational health work, and at the same time strengthened their sense of responsibility and mission in carrying out occupational health work, and lay a solid foundation for promoting the company’s safe production.



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

Name of Indicator	Unit	2020	2019	2018
Investment in safety production	(RMB ten thousand)	<b>769.94</b>	801.62	956.32
Times of safety education and training	(time)	<b>169</b>	225	210
Number of employees attending safety education and training	(person-time)	<b>3,612</b>	4,539	4,160
Coverage rate of physical examination for employees	(%)	<b>100</b>	100	100
Coverage rate of special examination for the females	(%)	<b>100</b>	100	100
Coverage rate of occupational disease examination	(%)	<b>100</b>	100	100
Number of work-related accident	(time)	<b>2</b>	1	1
Number of workers died due to occupational injury	(person)	<b>2</b>	2	2
Number of working days lost due to occupational injury <sup>4</sup>	(day/year)	<b>255</b>	261	14

### 3.4 Focus on Care for Employees

The Company has always adhered to putting people first. During the Reporting Period, we strengthened the Care for employees through various activities such as carrying out recreational and sports activities, festival greetings, and helping employees with difficulties, so as to enhance the work enthusiasm of employees, and promote the sustainable and healthy development of the enterprise.

- *Promoting Democratic Construction*

The Company paid close attention to the construction of democratic management. During the Reporting Period, we regularly convened the employee representative congress, and organized employee representatives to participate in the one reporting and two appraisals by the Company's leading group, and the reporting of the middle-level cadres on their work and honest governance, to listen to the voices of employees; at the same time, we published the information on the enterprise's production, operation, management and development in a timely manner through a combination of internal and external disclosure, so as to enable the employees to understand the Company's dynamics and obtain their concerned hot information, and enable them to effectively integrate into the Company's development and management, jointly promoting the Company's long-term development.

4 In 2020, the Company adjusted the unit of number of working days lost due to occupational injury to day/year.

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

- *Assistance to employees in difficulties*

We paid attention to the difficulties of employees, insisted on helping employees in difficulties, and took practical actions to dedicate love to employees in difficulties to reduce their life pressure, forming a corporate culture of mutual help and love. During the Reporting Period, the Company established and constantly updated the files of needy employees, provided assistance for needy employees, and visited them before important holidays, so as to enable them to feel the Company's care. In addition, when employees are in sick or hospital, we will also provide caring and condolences, and give care and help.

- *Organizing Recreational and Sports Activities*

In order to enrich the cultural life of employees and benefit their physical and mental health, the Company organized a number of recreational and sports activities to establish a good corporate cultural atmosphere and continuously enhance team cohesion:

- Relying on the position of the labor union, and in combination with the construction of the staff's book house, the Company carried out the "Employee Reading Month" activity to enrich the spiritual life of employees through reading sharing, reading speeches and other forms;
- Taking the 20th anniversary of the establishment of the Company as an opportunity, we carried out the activities of collecting the anniversary logo, subject headings, calligraphy, painting, and video creation; filmed a feature film for the 20th anniversary of Xinglu Wastewater Treatment, and wrote the Xinglu Wastewater Treatment Chronicles (2000–2020), showing the Company's excellent culture;
- Carry out the activity of "Warm-heart Visit on the Children's Day" to visit children in special schools, and military-civilian joint cooperation activity, and "World Environment Day of June 5" publicity activity, publicizing wastewater treatment knowledge to governments, schools, enterprises and enterprises and public institutions as well as the general public, and dedicating corporate love;
- Carry out the job skills competition of "Excelling in Performances to Be the Leader", and incorporate the pipeline installation, water quality monitoring, and news writing into the competition in combination with the current actual needs of the Company, to promote the learning by competition, promote the employment by competition, and improve professional skills;
- Carry out the youth volunteer activity of "Protecting the Mother River, and Striving to Keep the River Clear", carry out environmental protection publicity to the citizens, and take practical actions to escort the beautiful rivers and maintain the clear waters and green mountains in hometown;

**Case: Mountaineering and patriotism – The Group’s “Praise the New China and Forge Ahead In a New Era “mountaineering activity as a gift for the National Day**

In order to welcome the 71st anniversary of the birth of the motherland, promote and cultivate the national spirit, inspire patriotism, and enhance the sense of collective honor among employees, on September 30, 2020, The Group held a National Day mountaineering activity “Praise the New China and Forge Ahead In a New Era”. Leaders of the group company and each sub-union selected 13 groups of mountaineering teams to participate in the activity.

The mountaineering activity was 6 kilometers long, and 13 participating teams followed the established route through 10 points, and finally all reached the finish line. During the hike, the team members admired the green scenery gifted by nature, visited the Anti-Japanese War Primary School, the southern Sichuan guerrillas and other historical relics, paid tribute to revolutionary martyrs, experienced revolutionary feelings, and received patriotic education. Not only exercised the body, but also washed the soul, and truly felt a baptism of the body and mind.

This event fully demonstrated the strong patriotism of Xinglu Water Affairs staff and the spirit of moving forward, working hard, and uniting and cooperating.





**Case: “Feel the beauty between square inches” – The Group organizes mobile photography training**

In order to further enrich the spiritual life of employees, from September 14 to 16, 2020, the labor union of the Group organized a training on mobile photography skills. In the training, the photography expert centered on the theoretical knowledge of mobile photography, common functions, composition, and light use, through the display and explanation of many award-winning mobile phone photography works and case analysis of wrong pictures, provides people with an in-depth explanation of the theoretical knowledge of mobile photography and teaches photography experience based on actual conditions.

This training event provides a learning and communication platform for photography enthusiasts. While improving the mobile phone photography level of employees, it also enriches employees' leisure life, allowing the company to “everyone is a photographer” and extensively and truly record the moments of corporate development, to be the witness of enterprise development and the recorder of enterprise development.



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

- *Care for Female Employees*

In order to further inherit the corporate care culture, safeguard the legitimate rights and interests of female employees in accordance with the law, and increase the happiness index of female employees, the Company cared for female employees through carrying out various activities to enhance their sense of belonging and happiness.

- During the Women's Day, organize female employees to carry out environmental protection publicity and exchange activities to improve their professional skills;
- Care for female employees giving birth, and regularly organize gynecological examination for female employees to care for their physical and mental health;
- Carry out the female employee's demeanor display activities, such as the female employee's demeanor display activity of "anti-epidemic pioneer" and online women's grace sharing activity, to highlight the high-spirited state of mind of female employees;
- Carry out the "Concerned about the Anti-epidemic Front Line" activity of care for female employees and "Joint Guardian" activity of protection of female employees' rights and interests, care for the health and safety of female employees, and safeguard their legitimate rights and interests.

### 4. Win-win Cooperation, and Enthusiasm for Public Welfare Undertakings

The Company focused on strengthening supply chain management, and proactively developed business exchanges and collaborations with suppliers and partners for mutual benefit, and strove to achieve common progress. At the same time, the Company was actively committed to public welfare undertakings to establish a good and responsible corporate image through participation in such activities as the community public welfare and targeted poverty alleviation activities.

#### 4.1 *Win-win Cooperation with Partners*

During the Reporting Period, the Company continued to strictly comply with the Management Provisions for Materials Procurement, the Management Measures for Materials Procurement Acceptance, the Supplier Management Measures, the Materials Management Measures and other internal systems, and optimized the materials procurement process. In order to further standardize the procurement process, the Company optimized the selection and assessment process of suppliers from multiple perspectives such as the supplier access, supervision of suppliers, evaluation of suppliers, and performance of environmental and social responsibilities by suppliers, and made progress together with supplier partners.

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

- *Supplier Access*

The Company established the Supplier Questionnaire, to strictly review the qualifications of the supplier, and inspect and audit the supplier's permits (licenses) related to lawful operation, financial strength, production and operation capabilities, sampling, material cost performance, emergency response capabilities and after-sales service. The Company listed the suppliers approved on the List of Suppliers for one year of trial. It should organize the personnel of relevant departments for field investigation and review before the trial, if necessary. The Company listed the suppliers passing the trial on the List of Qualified Suppliers, and established the suppliers' files for quality and service tracking.

- *Supervision of Suppliers*

The Company regularly implemented dynamic management of the suppliers, following up and investigating the quality, lead time of materials, service and price of materials of the suppliers. Meanwhile, it visited and inspected the suppliers of main materials or important materials irregularly, as the basis of daily appraisal and assessment of the suppliers.

- *Evaluation of Suppliers*

The Material Procurement Management Committee of the Company reviewed the suppliers every year and revised the List of Qualified Suppliers based on the results of the review. Suppliers failing to meet the production and procurement requirements upon confirmation will be eliminated from the list of suppliers.

- *Management of the Performance of Environmental and Social Responsibilities by Suppliers*

The Company paid close attention to the performance of environmental and social responsibilities by suppliers. On the one hand, we gave priority to choosing suppliers with environmental protection qualifications to purchase main materials; on the other hand, we strengthened the risk management and control of suppliers' environmental and occupational health and safety factors through environmental and occupational safety and health management agreements. If a supplier pollutes the environment or violates the labor standards, we will downgrade or cancel its qualification depending on the extent of the violation.

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

Name of Indicator		Unit	2020	2019	2018
Total number of suppliers		(quantity)	<b>198</b>	146	133
Number of suppliers by region	Number of suppliers in Sichuan Province	(quantity) (%)	<b>153</b> <b>77</b>	103 71	94 71
	Number of suppliers in Chongqing	(quantity) (%)	<b>12</b> <b>6</b>	16 11	15 11
	Number of suppliers in other mainland regions than Sichuan Province and Chongqing	(quantity) (%)	<b>33</b> <b>17</b>	27 18	24 18
Number and ratio of suppliers by category- wastewater treatment business	General equipment	(quantity) (%)	<b>30</b> <b>22.7</b>	18 20	21 27
	Professional equipment	(quantity) (%)	<b>21</b> <b>15.9</b>	23 26	19 24
	Special equipment	(quantity) (%)	<b>0</b> <b>0</b>	0 0	1 1
	Safety suppliers	(quantity) (%)	<b>4</b> <b>3.0</b>	3 3	3 4
	Production reagent	(quantity) (%)	<b>10</b> <b>7.6</b>	8 9	6 8
	Auxiliary and logistics materials	(quantity) (%)	<b>50</b> <b>37.9</b>	16 18	16 21
	Service outsourcing	(quantity) (%)	<b>17</b> <b>12.9</b>	22 24	12 15
Number and ratio of suppliers by category- water supply business	Main materials	(quantity) (%)	<b>40</b> <b>60.6</b>	29 52	20 36
	Auxiliary materials	(quantity) (%)	<b>7</b> <b>10.6</b>	5 9	13 24
	Important materials	(quantity) (%)	<b>4</b> <b>6.1</b>	7 13	7 13
	Equipment	(quantity) (%)	<b>13</b> <b>19.7</b>	14 25	14 25
	Electric	(quantity) (%)	<b>2</b> <b>3.0</b>	1 2	1 2
Assessment rate of executing relevant practices for the suppliers		(%)	<b>100</b>	100	100

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

### 4.2 Devoting to Public Welfare Undertakings

The Company was enthusiastic in public welfare undertakings, promoted the development of public welfare undertakings in various fields such as community participation and targeted poverty alleviation, and strived to return the society and promote social progress, and actively fulfilled social responsibilities.

- *Community Participation*

During the Reporting Period, employees of the Company proactively participated in the community and related voluntary activities, contributing to the construction of a harmonious society:

- Organize a team of volunteers to clean, repair and replace 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;
- Facing the passage of flood peaks, set up a volunteer service team of party members, and spare no efforts to participate in the dredging of the scenic belt of Binjiang Road after the flood;
- Organize and participate in the “Voluntary Repairman” water and electrical maintenance of youth volunteer service into the community activity, and give full play to professional skills, providing services for the community.

**Case: Xinglu Wastewater Treatment Carried Out A Voluntary Service Activity of “Protect the Mother River, Strive to Keep the River Clear”**

To implement the promotion of green transformation and development of Yangtze River Economic Belt by practical action, the participation of larger groups in environmental protection cause was augmented. On the afternoon of November 18, 2020, the general party branch of Xinglu Wastewater Treatment took the lead in organizing more than 30 party members and youth league volunteers to carry out river garbage cleaning activities along the river from Binjiang Road to Yanjiang Road. At the site of activity, the volunteers were all in high spirits and spunky. They were divided into two groups to clean up the embankment and surrounding debris on the banks of the Yangtze River and Tuojiang River.

Through this activity, employees worked hard to participate in water resources protection activities and popularized the green concept into daily life. They take practical actions to escort the beautiful rivers and maintain the clear waters and green mountains in hometown.



- *Precise Poverty Alleviation*

The Company adhered to the corporate mission of “fulfilling responsibilities, creating value, and enabling the people happy”, actively carried out targeted poverty alleviation, provided dedicated assistance for impoverished rural areas, helped local people to get rid of poverty, become better off, and improve their lives, and contributed to poverty alleviation.

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

During the Reporting Period, we formulated a scientific and reasonable assistance work plan, providing pair assistance for the people of Xuyong County in improving their living standards:

- Donate 50,000 yuan to build an education base of party members jointly with Chahe Village to carry forward the spirit of “Red big weir “;
- Provide technical guidance on wastewater treatment expertise for the optimization of the drainage system of Chahe Village, and donate 20,000 yuan as difficulty relief fund;
- Donate 80,000 yuan to assist the optimization of drainage works of the education base of party members in Chahe Village, and help the environmental sanitation improvement work;
- During the epidemic period, the Company provided 2482.50 yuan of epidemic prevention and control materials for Chahe Village in the voluntary service activities of party members;
- Make a targeted donation of 60,000 yuan to Yuxiangping Village via Luzhou Poverty Alleviation Foundation to assist Yuxiangping Village in developing the pepper industry, and help poverty relief villages to eliminate poverty by developing industries.

In addition, the Company actively responded to the requirements of poverty alleviation documents, and carried out poverty alleviation by consuming products and services from poor areas by purchasing agricultural products valued at 74,100 yuan, to promote the industrial development of poverty-stricken areas.

Name of Indicator	Unit	2020	2019	2018
Number of public benefit activities organized or attended	(time)	87	128	119
Number of employees organizing or attending public benefit activities	(person-time)	1,490	863	514
Hours of organizing or attending public benefit activities	(hour)	354	808	938
Amount of external donation	(RMB ten thousand)	37.50	171.80	18.30

# INDEPENDENT AUDITOR'S REPORT



## **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 148 to 292, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 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") issued by the International Federation of Accountants. 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' International 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 18 to the consolidated financial statements, for the purpose of impairment assessment, the carrying amount of the IA was RMB1,028 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") in which the IA have been included and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 4 and 18 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 2020.

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

- Understanding the directors' impairment assessment process, including the valuation model and assumptions used by the independent valuer engaged by the Group;
- Evaluating the competence and objectivity of the independent qualified professional valuer and obtaining an understanding of the valuer's scope of work.
- 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;
- Reviewing whether the disclosures of the impairment assessment in the consolidated financial statements are sufficient and appropriate; and
- With the support of our internal valuation specialists, we have assessed the appropriateness of valuation methodology and discount rate adopted.

## 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, actions taken to eliminate threats or safeguards applied.

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 Gladys Fung Suet Ngan.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5, 6		
Tap water supply		340,000	317,538
Wastewater treatment operating services		302,102	266,893
Interest income		91,522	55,835
Installation services		341,494	291,372
Construction and upgrade services of infrastructure		1,446,787	1,135,494
Total revenue		2,521,905	2,067,132
Cost of sales and services		(2,065,785)	(1,691,668)
Gross profit		456,120	375,464
Other income, expenses, gains and losses, net	7	43,735	36,879
Impairment losses under expected credit loss model, net of reversal	8	(4,965)	(1,346)
Distribution and selling expenses		(18,026)	(18,180)
Administrative expenses		(84,729)	(84,454)
Finance costs	9	(118,449)	(76,369)
Share of loss of an associate		(923)	–
Profit before tax	11	272,763	231,994
Income tax expense	10	(47,959)	(30,471)
Profit for the year		224,804	201,523
<b>Other comprehensive (expense) income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income (before tax)		(386)	492
Deferred income tax on fair value loss (gain) on investments in equity instruments at fair value through other comprehensive income		96	(123)
Other comprehensive (expense) income for the year, net of income tax		(290)	369
Total comprehensive income for the year		224,514	201,892

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

FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>NOTES</i>	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year attributable to:			
– Owners of the Company		<b>208,348</b>	190,591
– Non-controlling interests		<b>16,456</b>	10,932
		<b>224,804</b>	201,523
Total comprehensive income for the year attributable to:			
– Owners of the Company		<b>208,058</b>	190,960
– Non-controlling interests		<b>16,456</b>	10,932
		<b>224,514</b>	201,892
<b>EARNINGS PER SHARE (RMB)</b>			
– Basic	14	<b>0.24</b>	0.22

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
<b>Non-current Assets</b>			
Property, plant and equipment	15	80,814	56,663
Right-of-use assets	16	83,717	76,893
Contract assets	25	210,881	181,203
Investment properties	17	14,323	12,173
Goodwill	19	25,278	25,278
Intangible assets	18	3,511,312	2,714,174
Equity instruments at fair value through other comprehensive income	20	1,854	57,765
Interest in an associate	21	54,602	–
Prepayments and other receivables	24	42,696	14,526
Receivables under service concession arrangements	18	1,629,149	1,146,359
Deferred tax assets	22	28,964	29,925
		<b>5,683,590</b>	4,314,959
<b>Current Assets</b>			
Inventories	26	33,825	45,351
Receivables under service concession arrangements	18	30,147	22,784
Trade receivables	23	353,667	269,913
Prepayments and other receivables	24	53,926	38,784
Prepaid income tax		14,132	9,726
Contract assets	25	18,531	18,209
Bank balances and cash	27	1,036,193	1,095,877
		<b>1,540,421</b>	1,500,644
<b>Current Liabilities</b>			
Trade payables	28	58,988	54,134
Other payables	29	1,126,272	793,888
Tax liabilities		4,145	4,107
Borrowings	31	509,744	491,932
Lease liabilities	33	128	37
Provisions	34	13,253	3,657
Contract liabilities	30	277,693	226,379
Deferred income – government grants	32	13,768	–
		<b>2,003,991</b>	1,574,134
<b>Net Current Liabilities</b>		<b>(463,570)</b>	(73,490)
<b>Total Assets Less Current Liabilities</b>		<b>5,220,020</b>	4,241,469

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
<b>Capital and Reserves</b>			
Share capital	36	859,710	859,710
Reserves		1,316,927	1,159,702
Equity attributable to owners of the Company		2,176,637	2,019,412
Non-controlling interests	38	156,295	108,066
<b>Total Equity</b>		<b>2,332,932</b>	2,127,478
<b>Non-current Liabilities</b>			
Deferred tax liabilities	22	20,749	17,776
Borrowings	31	1,531,824	931,641
Lease liabilities	33	199	46
Provisions	34	355,073	293,781
Deferred income – government grants	32	281,717	173,849
Bonds payable	35	697,526	696,898
		2,887,088	2,113,991
		5,220,020	4,241,469

The consolidated financial statements on pages 148 to 292 were approved and authorised for issue by the board of directors on 30 March 2021 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 2020

	Attributable to owners of the Company							
	Share capital RMB'000	Fair value through other comprehensive income ("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 2019	859,710	2,732	418,386	49,639	549,568	1,880,035	76,876	1,956,911
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 44)	-	-	-	-	-	-	(5,541)	(5,541)
2018 final dividend declared (Note 13)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Dividend declared to non-controlling interests	-	-	-	-	-	-	(800)	(800)
Acquisition of a subsidiary	-	-	-	-	-	-	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>
Profit for the year	-	-	-	-	208,348	208,348	16,456	224,804
Other comprehensive expense for the year	-	(290)	-	-	-	(290)	-	(290)
Total comprehensive expense for the year	-	(290)	-	-	208,348	208,058	16,456	224,514
Appropriation for the year	-	-	-	29,096	(29,096)	-	-	-
Derecognition of investment in equity instrument at FVTOCI	-	(2,245)	-	-	2,995	750	-	750
Capital contributions by non-controlling equity owners of subsidiaries	-	-	-	-	-	-	31,773	31,773
2019 final dividend declared (Note 13)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
At 31 December 2020	<b>859,710</b>	<b>566</b>	<b>418,386</b>	<b>109,113</b>	<b>788,862</b>	<b>2,176,637</b>	<b>156,295</b>	<b>2,332,932</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 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<b>272,763</b>	231,994
Adjustments for:		
Bank interest income	<b>(6,380)</b>	(4,321)
Share of loss of an associate	<b>923</b>	–
Foreign exchange gains, net	<b>(60)</b>	(211)
Deferred income in respect of government grants recognised	<b>(7,492)</b>	(6,726)
Profit from construction and upgrade services of infrastructure	<b>(30,938)</b>	(2,011)
Depreciation and amortisation	<b>146,948</b>	110,245
Gains on disposal of property, plant and equipment, net	<b>(806)</b>	(980)
Gains on termination of right-of-use assets	<b>(454)</b>	–
Impairment losses under expected credit loss model, net of reversal		
– on trade and other receivables	<b>4,282</b>	(577)
– on contract assets	<b>683</b>	1,923
Finance costs	<b>118,449</b>	76,369
Operating cash flows before movements in working capital	<b>497,918</b>	405,705
Decrease (increase) in inventories	<b>11,526</b>	(12,309)
Increase in trade and other receivables and prepayments	<b>(115,098)</b>	(156,900)
Increase in contract assets – installation services	<b>(1,005)</b>	(464)
Increase in contract assets – construction and upgrade services of wastewater treatment infrastructure	<b>(523,836)</b>	(284,193)
Decrease in receivables under service concession arrangements	<b>4,005</b>	24,341
Increase in trade and other payables	<b>23,307</b>	223,183
Increase in contract liabilities	<b>51,314</b>	50,029
Increase in provisions	<b>56,654</b>	55,581
Cash generated from operations	<b>4,685</b>	304,973
Income tax paid	<b>(47,547)</b>	(63,395)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(42,862)</b>	241,578

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 RMB'000	2019 RMB'000
<b>INVESTING ACTIVITIES</b>			
Interest received		6,380	4,321
Withdrawal of a tender deposit in respect of a wastewater treatment facility and pipeline network construction project		–	20,000
Purchases of property, plant and equipment, right-of-use assets and construction and upgrade services of infrastructure		(597,582)	(730,803)
Government grants received		27,667	11,863
Proceeds on disposal of property, plant and equipment		951	999
Acquisitions of subsidiaries		–	(104,770)
Payments of security deposits for other borrowings	31(f)	(750)	(5,450)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(563,334)</b>	<b>(803,840)</b>
<b>FINANCING ACTIVITIES</b>			
Capital contributions by non-controlling shareholders of subsidiaries		5,414	17,342
Proceeds from new borrowings		1,304,065	921,460
Repayments of borrowings		(584,609)	(419,137)
Proceeds from issuing corporate bonds		–	696,570
Payments of lease liabilities		(86)	(38)
Payment of interest expenses of borrowings		(86,739)	(53,383)
Payment of interest expenses of bonds payable		(39,950)	–
Payment of final dividend		(51,583)	(51,583)
Dividend paid to non-controlling interests		–	(800)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>546,512</b>	<b>1,110,431</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(59,684)</b>	<b>548,169</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>1,095,877</b>	<b>547,681</b>
Effect of foreign exchange rate changes		–	27
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER,</b>			
Represented by:			
Bank balances and cash		<b>1,036,193</b>	<b>1,095,877</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 1. GENERAL INFORMATION

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

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

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

In the opinion of the directors of the Company (the "Directors"), the Company's immediate and ultimate holding company is 瀘州市興瀘投資集團有限公司 (Luzhou 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. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and amendments to IFRSs in the current year 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.

#### 2.1 *Impacts of application of Amendments to IAS 1 and IAS 8 Definition of Material*

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 2. APPLICATION OF 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 and the related Amendments<sup>1</sup></i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions<sup>4</sup></i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework<sup>2</sup></i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform-Phase 2<sup>5</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current<sup>1</sup></i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies<sup>1</sup></i>
Amendments to IAS 8	<i>Definition of Accounting Estimates<sup>1</sup></i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>2</sup></i>
Amendments to IAS 37	<i>Onerous Contracts- Cost of Fulfilling a Contract<sup>2</sup></i>
Amendments to IFRS Standards	<i>Annual Improvements to IFRS Standards 2018–2020<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<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 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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 in the foreseeable future.

#### Amendments to IFRS 3 Reference to the Conceptual Framework

The amendments:

- update a reference in IFRS 3 *Business Combinations* (“IFRS 3”) so that it refers to the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the “Conceptual Framework”) instead of the International Accounting Standards Committee’s *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010);
- add a requirement that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”) or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and;
- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 Group had net current liabilities of RMB463,570,000 as at 31 December 2020. 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 banking facilities available to the Group as at 31 December 2020. As at 31 December 2020, the Group had available unutilised bank loan facilities of RMB1,188,243,000.

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 accounted for in accordance with IFRS 16 Leases* ("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").



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Basis of preparation of consolidated financial statements (Continued)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### 3.2 Significant accounting policies

##### *Basis of consolidation*

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

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Basis of consolidation (Continued)*

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Basis of consolidation (Continued)*

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.

##### *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.

##### *Goodwill*

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.

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Goodwill (Continued)*

A cash-generating unit ("CGU") (or group of CGUs) 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 CGU (or group of CGUs) 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 CGUs).

##### *Investments in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Investments in associates (Continued)*

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

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

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.

##### *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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Service concession arrangements*

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

Under these service concession arrangements:

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and
- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or 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.

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

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

The financial assets (receivables under service concession arrangement) are accounted for in accordance with the policy set out for 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Service concession arrangements (Continued)*

##### *Operating services*

Revenue relating to operating services are accounted for in accordance with the policy for “Revenue from contracts with customers” 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 Revenue from Contracts with Customers” (“IFRS 15”) above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Leases*

##### *Definition of a lease*

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*

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Leases (Continued)*

##### *The Group as a lessee (Continued)*

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.

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 dates to the end of the useful lives. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Leases (Continued)*

##### *The Group as a lessee (Continued)*

##### 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Leases (Continued)*

##### *The Group as a lessee (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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.

##### 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*

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 continues to recognise the assets and 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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.

Any specific borrowing that remains 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Government grants (Continued)*

Government grants related to income 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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

##### *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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *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.

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.

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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Intangible assets*

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost 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 cost 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *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.

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 CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU 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 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 CGU) for which the estimates of future cash flows have not been adjusted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) 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 CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. 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 CGUs. 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 CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU or a group of CGUs) 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 CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

##### *Inventories*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Financial instruments (Continued)*

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

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

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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 assessment 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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, in which case 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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

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;
- 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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)

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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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. The Group uses a practical expedient in estimating ECL on trade receivables arising from tap water supply using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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 (Continued)

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 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Significant accounting policies (Continued)

##### *Financial instruments (Continued)*

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

##### 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.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

Note 18 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 2020

### 4. 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 2020 are intangible assets recognised under service concession arrangements of RMB1,028 million (2019: RMB915 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 recognized (2019: Nil). Details of the recoverable amount calculation are disclosed in note 18.

(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 40(b) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 4. 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 2020, the carrying amount of goodwill is RMB25 million (2019: 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 each CGU 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 19.

##### *(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 5. REVENUE

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

	2020 RMB'000	2019 RMB'000
<b>Type of services</b>		
Tap water supply		
– Tap water	340,000	317,538
– Installation services	341,494	291,372
– Construction and upgrade services of tap water supply infrastructure	827,584	810,677
	<b>1,509,078</b>	1,419,587
Wastewater treatment		
– Operating services	302,102	266,893
– Construction and upgrade services of wastewater treatment infrastructure	619,203	324,817
	<b>921,305</b>	591,710
<b>Revenue from contracts with customers</b>	<b>2,430,383</b>	2,011,297
Wastewater treatment		
– Interest income on receivables under service concession arrangements	91,522	55,835
<b>Revenue</b>	<b>2,521,905</b>	2,067,132
<b>Timing of revenue recognition</b>		
At a point in time	642,102	584,431
Over time	1,788,281	1,426,866
	<b>2,430,383</b>	2,011,297
<b>Type of customer</b>		
Government	1,776,042	1,459,511
Non-government	654,341	551,786
	<b>2,430,383</b>	2,011,297

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 6.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 5. 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 2020

### 5. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 5. REVENUE (CONTINUED)

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

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.

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

As at 31 December 2020, the Group had aggregate amount of the transaction price allocated to remaining performance obligations (unsatisfied or partially unsatisfied) of installation services of RMB457,006,000 (2019: RMB383,206,000) (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 2020 and 2019, the Group has contracted capital commitment of such infrastructure work, as disclosed in note 42. 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 6. SEGMENT INFORMATION

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

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

- Tap water supply – provision of tap water supply, 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 2020

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	<b>340,000</b>	317,538
– Installation services	<b>341,494</b>	291,372
– Construction and upgrade services of tap water supply infrastructure	<b>827,584</b>	810,677
– Inter-segment sales*		
– Tap water	<b>248</b>	162
Wastewater treatment		
– From external customers		
– Operating service	<b>302,102</b>	266,893
– Interest income on receivables under service concession arrangements	<b>91,522</b>	55,835
– Construction and upgrade services of wastewater treatment infrastructure	<b>619,203</b>	324,817
Elimination*	<b>(248)</b>	(162)
<b>Revenue</b>	<b>2,521,905</b>	2,067,132
<b>Segment results</b>		
– Tap water supply**	<b>115,805</b>	115,529
– Wastewater treatment	<b>108,999</b>	85,994
Profit after tax	<b>224,804</b>	201,523

\* Inter-segment sales for the years ended 31 December 2020 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 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 6. SEGMENT INFORMATION (CONTINUED)

#### Segment assets and liabilities

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Segment assets</b>		
– Tap water supply	4,379,161	3,849,127
– Wastewater treatment	2,894,850	2,015,976
Elimination	(50,000)	(49,500)
Consolidated total assets	<b>7,224,011</b>	5,815,603
<b>Segment liabilities</b>		
– Tap water supply	3,106,153	2,617,314
– Wastewater treatment	1,834,926	1,120,311
Elimination	(50,000)	(49,500)
<b>Consolidated total liabilities</b>	<b>4,891,079</b>	3,688,125

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

#### Other segment information

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Interest income</b>		
– Tap water supply	5,069	3,163
– Wastewater treatment	92,833	56,993
	<b>97,902</b>	60,156

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 6. SEGMENT INFORMATION (CONTINUED)

### Other segment information (Continued)

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

	2020 RMB'000	2019 RMB'000
<b>Finance costs</b>		
– Tap water supply	(85,791)	(56,667)
– Wastewater treatment	(32,658)	(19,702)
	<b>(118,449)</b>	(76,369)
<b>Depreciation and amortisation</b>		
– Tap water supply	(136,308)	(103,184)
– Wastewater treatment	(10,640)	(7,061)
	<b>(146,948)</b>	(110,245)
<b>(Impairment losses) net reversal of impairment losses on trade and other receivables</b>		
– Tap water supply	(4,106)	635
– Wastewater treatment	(176)	(58)
	<b>(4,282)</b>	577
<b>Impairment losses on contract assets in respect of installation services</b>		
– Tap water supply	(683)	(1,923)
<b>Gains on disposal of property, plant and equipment, net</b>		
– Tap water supply	796	59
– Wastewater treatment	10	921
	<b>806</b>	980
<b>Income tax expense</b>		
– Tap water supply	(29,880)	(18,151)
– Wastewater treatment	(18,079)	(12,320)
	<b>(47,959)</b>	(30,471)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 6. SEGMENT INFORMATION (CONTINUED)

#### Other segment information (Continued)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Provisions for maintenance of infrastructure under service concession arrangements</b>		
– Tap water supply	<b>(28,724)</b>	(21,390)
– Wastewater treatment	<b>(30,707)</b>	(34,721)
	<b>(59,431)</b>	(56,111)
<b>Additions to non-current assets (other than goodwill, financial instruments and deferred tax assets)</b>		
– Tap water supply	<b>(856,079)</b>	(838,436)
– Wastewater treatment	<b>(623,917)</b>	(329,484)
	<b>(1,479,996)</b>	(1,167,920)

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

#### Geographical information

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 6. SEGMENT INFORMATION (CONTINUED)

#### Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A		
– Construction and upgrade services of infrastructure*	<b>1,105,711</b>	785,017
Customer B		
– Operating services	**	186,087
– Interest income on receivables under service concession arrangements	**	32,044

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

\*\* Revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2020.

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

	2020 RMB'000	2019 RMB'000
Value-added-tax (“VAT”) refunds ( <i>Note (a)</i> )	<b>5,929</b>	12,345
Deferred income in respect of government grants recognised	<b>7,492</b>	6,726
Bank interest income	<b>6,380</b>	4,321
Late charges on tap water users	<b>3,085</b>	3,631
Commission income on garbage fees collected for governmental bureau	<b>2,414</b>	2,038
Gains on disposal of property, plant and equipment, net	<b>806</b>	980
Rental income less outgoings ( <i>Note (b)</i> )	<b>823</b>	829
Foreign exchange gains, net	<b>60</b>	192
Donations	<b>(233)</b>	(1,718)
Consultation services income ( <i>Note (c)</i> )	<b>12,442</b>	–
Gain on sale of equipments and materials	<b>988</b>	1,016
Water quality inspection fees	<b>4,723</b>	3,700
Others	<b>(1,174)</b>	2,819
	<b>43,735</b>	36,879

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

Notes:

- a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to “Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources” (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.
- b. Rental income are all generated from operating leases, and related lease payments are fixed.
- c. The amount represents the consulting services provided to two independent third parties for rendering consultancy services of infrastructure.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Impairment losses, net of reversal recognised on:		
– Trade and other receivables	<b>(4,282)</b>	577
– Contract assets	<b>(683)</b>	(1,923)
	<b>(4,965)</b>	(1,346)

Details of impairment assessment for the years ended 31 December 2020 and 2019 are set out in note 40(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 9. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	77,394	42,184
Interest on bonds payable (Note 35)	40,578	22,795
Interest on other borrowings	15,541	16,204
Unwinding of the discount (Note 34)	14,234	10,924
Interest on lease liabilities	6	1
	<b>147,753</b>	92,108
Less: Amount capitalised in qualified assets	<b>(29,304)</b>	(15,739)
	<b>118,449</b>	76,369

Borrowing costs capitalised during the year ended 31 December 2020 arose on the specific and general borrowing pool and the latter are calculated by applying a capitalisation rate of 5.0% (2019: 5.0%) per annum to expenditure on qualifying assets.

### 10. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current year	41,984	39,212
Underprovision in prior years	1,195	624
Current tax	43,179	39,836
Deferred tax – current year	(2,567)	(9,365)
Deferred tax – attributable to change in tax rate (Note (a))	7,347	–
Deferred tax (Note 22)	4,780	(9,365)
Total income tax recognised in profit or loss	<b>47,959</b>	30,471



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 10. 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	
	Year ended 31 December 2020	Year ended 31 December 2019
The Company ( <i>Note (a)</i> )	15%	15%
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%	15%
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%	15%
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%	15%
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%	15%
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water") ( <i>Note (a)</i> )	15%	15%
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) ("Sitong Engineering")	20% <i>Note (c)</i>	15% <i>Note (a)</i>
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%	7.5% or 15%
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")	20% <i>Note (c)</i>	15% <i>Note (a)</i>
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%	15%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 10. 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: (Continued)

Name of company	Applicable EIT rate	
	Year ended 31 December 2020	Year ended 31 December 2019
興瀘水務(集團)威遠清溪水務有限公司 (XingheWater Weiyuan Qingxi Water Co., Ltd.) ("Weiyuan Qingxi Water") (Note (a))	15%	15%
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") (Note (a))	15%	15%
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") (Note (c))	20%	20%
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) ("Fanxing Environmental") (Note (b))	Nil	Nil
敘永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd) ("Yongxing Water") (Note (c))	20%	20%
德昌縣興瀘水務有限公司 (Dechang Xinglu Water Co., Ltd.) ("Dechang Water") (Notes (c) and (d))	20%	N/A
雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd.) ("Leibo Water") (Notes (c) and (d))	20%	N/A
瀘州市興瀘智慧水務科技有限責任公司 (Zhihui Water Science and Technology Co., Ltd.) ("Zhihui Water") (Notes (c) and (d))	20%	N/A

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 10. INCOME TAX EXPENSE (CONTINUED)

*Notes:*

- 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 2019 and 2020, 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 2019 and 2020 accounted for more than 70% of their total revenue in these years. Therefore these entities enjoy the preferential EIT rate of 15%.

In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, 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% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 31 December 2020.

- 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 years ended 31 December 2020 and 2019.

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, was 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 years ended 31 December 2020 and 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]), Sitong Engineering, Sitong Design, Leshan Xingjia, Yongxing Water, Dechang Water, Leibo Water and Zhihui Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.
- d. Dechang Water, Leibo Water and Zhihui Water were established on 2 January 2020, 18 February 2020 and 22 January 2020, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 10. INCOME TAX EXPENSE (CONTINUED)

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

	2020 RMB'000	2019 RMB'000
Profit before tax	<b>272,763</b>	231,994
Tax at PRC EIT rate of 15% ( <i>Note</i> )	<b>40,914</b>	34,799
Tax effect of expenses not deductible for tax purpose	<b>246</b>	335
Tax effect of share of loss of an associate	<b>139</b>	–
Tax effect of tax losses not recognised	<b>1,227</b>	–
Effect of tax exemption applicable to certain PRC subsidiaries	<b>(4,492)</b>	(3,354)
Effect of different applicable tax rate on deferred tax in respect of provision for maintenance of infrastructure under service concession arrangements	<b>(498)</b>	(6,417)
Effect of different applicable tax rate on deferred tax in respect of intangible assets and receivables under service concession arrangements	<b>74</b>	3,332
Effect attributable to change in tax rate of the Company and subsidiaries ( <i>Note (a)</i> )	<b>7,347</b>	–
Effect of different applicable tax rates of subsidiaries	<b>1,807</b>	1,152
Underprovision in prior years	<b>1,195</b>	624
Income tax expense	<b>47,959</b>	30,471

*Note:* For the years ended 31 December 2020 and 2019, 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 2020

### 11. PROFIT BEFORE TAX

	2020 RMB'000	2019 RMB'000
<b>Profit before tax has been arrived at after charging:</b>		
Depreciation of property, plant and equipment ( <i>Note 15</i> )	9,922	6,164
Depreciation of investment properties ( <i>Note 17</i> )	599	449
Amortisation of intangible assets ( <i>Note 18</i> )	131,440	101,802
Depreciation of right-of-use assets ( <i>Note 16</i> )	4,987	1,830
<b>Total depreciation and amortisation</b>	<b>146,948</b>	110,245
Auditors' remuneration	2,770	2,580
Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 12):		
– Salaries, wages and welfare	152,897	138,061
– Retirement benefit scheme contributions ( <i>Note</i> )	8,187	23,177
<b>Total staff costs</b>	<b>161,084</b>	161,238
Cost of inventories recognised as an expense	110,959	82,397
<b>and after crediting:</b>		
Gross rental income from investment properties	1,492	1,343
Less: Direct operating expenses incurred for investment properties that generated rental income	(669)	(514)
	<b>823</b>	829

*Note:* During the current year ended 31 December 2020, the Group is entitled a reduction of retirement benefit scheme contributions amounting to approximately RMB18 million in respect of COVID-19-related subsidies, which are related to retirement benefit scheme, provided by the PRC local government.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

### Directors and supervisors

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

	Other emoluments				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>2020</b>					
<i>Executive Directors</i>					
Mr. Zhang Qi*	-	144	280	43	467
Mr. Liao Xing Yue	-	148	297	43	488
Mr. Wang Jun Hua	-	128	287	43	458
<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	-	149	86	43	278
Mr. Xu Ke	-	-	-	-	-
Ms. Huang Mei	-	139	237	43	419
Ms. Xiang Min	-	162	96	43	301
Mr. Xuan Ming	-	50	-	-	50
Mr. Xiong Hua	-	50	-	-	50
	<b>268</b>	<b>970</b>	<b>1,283</b>	<b>258</b>	<b>2,779</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 12. 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>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
	268	1,082	1,621	520	3,491

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 12. 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 years ended 31 December 2020 and 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, 3 (2019: 4) individuals were executive Directors and supervisor whose emoluments for the year ended 31 December 2020 are included in the disclosure above and the emolument of the remaining 2 (2019: 1) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, wages, allowance and others	266	156
Retirement benefit scheme contributions	86	89
Performance related incentive payments	541	369
	<b>893</b>	614

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

	2020 (Number of employee)	2019
Less than HK\$1,000,000	2	1

During the years ended 31 December 2020 and 2019, 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 2020

### 13. DIVIDENDS

A final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2019 (2019: RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018) was declared and fully paid to the shareholders of the Company during the year ended 31 December 2020.

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 2020 (2019: final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2019) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

### 14. EARNINGS PER SHARE

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

	2020	2019
Profit for the year attributable to the owners of the Company (RMB'000)	<b>208,348</b>	190,591
Weighted average number of ordinary shares issued ('000)	<b>859,710</b>	859,710

No diluted earnings per share is presented for the years ended 31 December 2020 and 2019 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 2020

## 15. 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 2019	20,490	38,615	17,506	7,429	84,040
Additions from acquisition of one subsidiary ( <i>Note 37</i> )	–	164	1,229	–	1,393
Additions	12,437	3,582	1,201	4,314	21,534
Disposals	–	–	(420)	–	(420)
At 31 December 2019	32,927	42,361	19,516	11,743	106,547
Additions	168	5,354	256	5,700	11,478
Disposals	(11)	(351)	(3,618)	–	(3,980)
Contribution by a non-controlling equity owner of a subsidiary ( <i>Note 44</i> )	14,372	8,104	264	–	22,740
<b>At 31 December 2020</b>	<b>47,456</b>	<b>55,468</b>	<b>16,418</b>	<b>17,443</b>	<b>136,785</b>
<b>Accumulated depreciation</b>					
At 1 January 2019	(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
At 31 December 2019	(9,077)	(21,188)	(13,602)	(6,017)	(49,884)
Provided for the year	(1,657)	(4,610)	(1,471)	(2,184)	(9,922)
Eliminated on disposals	11	332	3,492	–	3,835
<b>At 31 December 2020</b>	<b>(10,723)</b>	<b>(25,466)</b>	<b>(11,581)</b>	<b>(8,201)</b>	<b>(55,971)</b>
<b>Carrying amounts</b>					
<b>At 31 December 2020</b>	<b>36,733</b>	<b>30,002</b>	<b>4,837</b>	<b>9,242</b>	<b>80,814</b>
At 31 December 2019	23,850	21,173	5,914	5,726	56,663

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 15. 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

### 16. RIGHT-OF-USE ASSETS

	Leasehold land <i>RMB'000</i>	Leased properties <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2020</b>			
Carrying amount	83,385	332	83,717
<b>As at 31 December 2019</b>			
Carrying amount	76,808	85	76,893
<b>For the year ended 31 December 2020</b>			
Depreciation charge	(4,910)	(77)	(4,987)
<b>For the year ended 31 December 2019</b>			
Depreciation charge	(1,794)	(36)	(1,830)
		<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Expense relating to short-term leases ( <i>Note (a)</i> )		<b>192</b>	65
Total cash outflow for leases ( <i>Note (b)</i> )		<b>278</b>	39
Additions to right-of-use assets		<b>14,786</b>	74

*Note:*

- (a) The Group regularly entered into short-term leases for staff quarters. As at 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.
- (b) Amount includes payments of principal and interest portion of lease liabilities. These amounts are presented in financing cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Restrictions or covenants on leases

Lease liabilities of RMB327,000 (2019: RMB83,000) are recognised with related right-of-use assets of RMB332,000 (2019: RMB85,000) as at 31 December 2020. Details of the lease maturity analysis of lease liabilities are set out in note 40(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.

#### Leases committed

As at 31 December 2020, 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 had raised borrowings (net of issue costs) amounting to RMB222,530,000 in respect of such sale and leaseback arrangements. During the year ended 31 December 2020, the Group has raised borrowings (net of issue costs) amounting to RMB48,550,000 in respect of such sale and leaseback arrangements, the details of which are set out in note 31(f).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 17. 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 10 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>	
At 1 January 2019 and 31 December 2019	17,566
Contribution by a non-controlling equity owner of a subsidiary ( <i>Note 44</i> )	1,318
Transfer from right-of-use assets	2,534
<b>At 31 December 2020</b>	<b>21,418</b>
<b>Accumulated depreciation</b>	
At 1 January 2019	(4,944)
Provided for the year	(449)
At 31 December 2019	(5,393)
Provided for the year	(599)
Transfer from right-of-use assets	(1,103)
<b>At 31 December 2020</b>	<b>(7,095)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2020</b>	<b>14,323</b>
At 31 December 2019	12,173

The investment properties are situated in the PRC held under medium term leases and are depreciated on a straight-line basis between 20 and 50 years, after taking into account the estimated residual value of nil to 5%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. 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 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 3, 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 2020

### 18. 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 2020

## 18. 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 2005 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 2020

## 18. 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 2020

## 18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan County area	Jiangyang District area
Terms of termination	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	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> </ul>	<ul style="list-style-type: none"> <li>asset disposal without permission;</li> </ul>	<ul style="list-style-type: none"> <li>fund raising activities not in compliance with the relevant provisions that result in unauthorised asset pledge or disposal;</li> </ul>	<ul style="list-style-type: none"> <li>asset disposal without permission;</li> </ul>	<ul style="list-style-type: none"> <li>asset disposal without permission;</li> </ul>
	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> </ul>	<ul style="list-style-type: none"> <li>material adverse impact on public interest and safety due to close of business without permission;</li> </ul>
	<ul style="list-style-type: none"> <li>material quality or safety accidents; or</li> </ul>	<ul style="list-style-type: none"> <li>material quality or safety accidents; or</li> </ul>	<ul style="list-style-type: none"> <li>material quality or safety accidents; or</li> </ul>	<ul style="list-style-type: none"> <li>material quality or safety accidents; or</li> </ul>	<ul style="list-style-type: none"> <li>material quality or safety accidents; or</li> </ul>
	<ul style="list-style-type: none"> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>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 2020

## 18. 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 remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (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 remains 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 remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (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 2020

### 18. 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 ("Shizhong District").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

In February 2019, the Company acquired 92.5% equity interest in Fanxing Environmental which had 4 concession agreements with The People's Government of Gulin County (古蔺縣人民政府), 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").

In November 2019, the Group entered into a concession agreement with Management Committee of Industrial Concentration Zone of Dechang County (德昌縣工業集中區管理委員會), that set forth the grant of concession right to the Group to provide wastewater treatment services in industrial concentration zone of Dechang County ("Dechang County").

In December 2019, the Group entered into a concession agreement with Qingbaijiang District Economic Science, Technology and Information Technology Bureau of Chengdu Municipality (成都市青白江區經濟科技和資訊化局), that set forth the grant of concession right to the Group to provide wastewater treatment services in industrial zone of Qingbaijiang ("Qingbaijiang District").

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, Dechang County area and Qingbaijiang District area in January 2013, February 2013, August 2014, March 2012, May 2014, November 2018, February 2019, November 2019 and December 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Besides, during the Service Concession Period, the Group also constructs certain new wastewater treatment infrastructure in Luzhou urban area, Shizhong District, Luzhou Rural Area and Gulin County Rural Area, Dechang District and Qingbaijiang District 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.

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	Dechang County area	Qingbaijiang District 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.	13-28 years, from the date of infrastructure put into operation.	25 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.	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.	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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Guilin County area	Xuyong County area	Hejiang County area	Shizhong District area	Luzhou Rural Area and Guilin County Rural Area	Dechang County area	Qingbaijiang District area
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	N/A	N/A
Responsibilities	<p>During the concession period, the Group shall:</p> <ul style="list-style-type: none"> <li>maintain serviceability of the wastewater treatment infrastructure;</li> <li>maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols;</li> <li>not pledge assets for borrowings 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>	<p>During the concession period, the Group shall:</p> <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>	<p>During the concession period, the Group shall:</p> <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>	<p>During the concession period, the Group shall:</p> <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>	<p>During the concession period, the Group shall:</p> <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>	<p>During the concession period, the Group shall:</p> <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 used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<p>During the concession period, the Group shall:</p> <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 used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<p>During the concession period, the Group shall:</p> <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 used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.</li> </ul>	<p>During the concession period, the Group shall:</p> <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 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 2020

## 18. 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	Dechang County area	Qingbaijiang District 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 the 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 the 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 the 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>	Upon expiry of the 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>	Upon expiry of the 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 2020

## 18. 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	Dechang County area	Qingbaijiang District area
Rights to receive specified assets at the end of the concession period	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remains (previously invested by the Group) before the concession agreement entered into on 28 April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remains 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.	Infrastructure is transferred to the Grantor at nil consideration at the end of the concession period.
Terms of renewal	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	No right to extend the concession right.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	No right to extend the concession right.	No right to extend the concession right.

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, Luzhou Rural Area and Gulin County Rural Area, Dechang County Area and Qibaijiang District Area.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. 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 2019	2,193,937
Acquisition of a subsidiary	7,579
Adjustment to previous contribution by a non-controlling equity owner of a subsidiary ( <i>Note 44</i> )	(925)
Additions	862,119
At 31 December 2019	3,062,710
Additions	928,578
<b>At 31 December 2020</b>	<b>3,991,288</b>
<b>Accumulated amortisation</b>	
At 1 January 2019	(246,734)
Amortisation for the year	(101,802)
At 31 December 2019	(348,536)
Amortisation for the year	(131,440)
<b>At 31 December 2020</b>	<b>(479,976)</b>
<b>Carrying amounts</b>	
<b>At 31 December 2020</b>	<b>3,511,312</b>
At 31 December 2019	2,714,174

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. 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 2020, intangible assets recognised under service concession arrangements of RMB1,028 million (2019: RMB915 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, Cushman and Wakefield, to determine the recoverable amount of each CGU as at 31 December 2020 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 11.8% to 13.8% (2019: 11.4% to 15.9%). 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 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, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2019 and 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 18. 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current portion	1,629,149	1,146,359
Current portion	30,147	22,784
	<b>1,659,296</b>	1,169,143
Expected collection schedule is analysed as follows:		
Within one year	30,147	22,784
More than one year, but not exceeding two years	33,872	24,519
More than two years, but not exceeding three years	38,397	25,802
More than three years, but not exceeding four years	42,466	27,158
More than four years, but not exceeding five years	44,791	28,619
Over five years	1,469,623	1,040,261
	<b>1,659,296</b>	1,169,143

The effective rate for the above financial assets fall within the range from 3.51% to 6.33% (2019: 3.51% to 6.33%) per annum.

Details of the impairment assessment are set out in Note 40(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 19. GOODWILL

RMB'000

### Cost

At 31 December 2019 and 2020

25,278

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:

	2020 RMB'000	2019 RMB'000
Weiyuan Qingxi Water	15,672	15,672
Weiyuan Installation Company	9,606	9,606
	<b>25,278</b>	25,278

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 2020 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 12.6% (2019:13.7%) for Weiyuan Qingxi Water CGU and 15.7% (2019: 13.3%) 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 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 by not less than RMB9,000,000 as at 31 December 2020. Therefore the Directors determine that there is no impairment of any of its CGUs containing the Group's goodwill as at 31 December 2020 and 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 20. 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	2020 RMB'000	2019 RMB'000
<b>At fair value</b>			
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. ("Xiangjiaba")	17.51%	–	53,883
Others		<b>1,854</b>	3,882
		<b>1,854</b>	57,765

### 21. INTEREST IN AN ASSOCIATE

	2020 RMB'000
Cost of interest in an associate	<b>55,525</b>
Share of loss and other comprehensive expense	<b>(923)</b>
	<b>54,602</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 21. INTEREST IN AN ASSOCIATE (CONTINUED)

Details of the Group's associate at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 2020	Proportion of voting rights held by the Group 2020	Principal activity
Xiangjiaba	China	China	17.51%	17.51%	Irrigation Construction

The Group holds 17.51% of the issued registered capital of Xiangjiaba. The Group is able to exercise significant influence over Xiangjiaba because it has the power to appoint one out of the nine directors of the associate under the Articles of Association of that company as at 31 December 2020.

No summarised financial information in respect of the interest in an associate applying the equity method is disclosed as the associate is immaterial.

### 22. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	28,964	29,925
Deferred tax liabilities	(20,749)	(17,776)
	8,215	12,149

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	ECL on trade receivables, other receivables and contract assets <i>RMB'000</i>	Provisions <i>RMB'000</i>	Intangible assets and receivables under service concession arrangements <i>RMB'000</i> <i>(Note (a))</i>	Revaluation surplus of investment properties <i>RMB'000</i>	FVTOCI reserve <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	1,246	57,093	(51,537)	(2,595)	(911)	1,506	4,802
Arising from acquisition of one subsidiary <i>(Note 37)</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
Credit (charge) to profit or loss – current	745	12,511	(6,979)	68	-	(3,778)	2,567
(Charge) credit to profit or loss – attributable to change in tax rate <i>(Note (b))</i>	-	(27,679)	20,332	-	-	-	(7,347)
Charge to other comprehensive income	-	-	-	-	96	-	96
Derecognition of investment in equity instrument at FVTOCI	-	-	-	-	750	-	750
At 31 December 2020	2,193	58,090	(47,434)	(2,459)	(188)	(1,987)	8,215



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

*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) According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, 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% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 31 December 2020.

At the end of the reporting period, the Group has unused tax losses of RMB7,062,000 (2019: Nil) available for offset against future profits. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable for related subsidiaries that taxable profit will be available against which the deductible temporary differences can be utilised. Tax losses of RMB7,062,000 will expire in 2025.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 23. TRADE RECEIVABLES

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	<b>357,922</b>	271,608
Less: Allowance for credit losses	<b>(4,255)</b>	(1,695)
Total trade receivables	<b>353,667</b>	269,913

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

As at 1 January 2019, the gross carrying amount of trade receivables from contracts with customers amounted to RMB131,889,000 and the allowance for credit losses amounted to RMB2,661,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 23. TRADE RECEIVABLES (CONTINUED)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	<b>203,759</b>	165,956
Between 3 months and 6 months	<b>62,271</b>	36,419
Between 6 months and 12 months	<b>49,692</b>	31,833
Over 1 year	<b>37,945</b>	35,705
	<b>353,667</b>	269,913

As at 31 December 2020, included in the Group's trade receivables balance are debtors with an aggregate gross amount of RMB154,107,000 (2019: RMB105,525,000) which are past due as at the reporting date. Out of the past due balances, RMB90,681,000 (2019: RMB69,062,000) has been past due 90 days or more. Except for gross amounts aggregating to RMB3,023,000 (2019: RMB1,702,000) which is considered as in default, the remaining past due balance of RMB87,658,000 (2019: RMB67,360,000) is not considered as in default since most is due from local government bureau mainly due to the increase in volume of wastewater treatment for the year ended 31 December 2020 that increased the governmental procedures and time for settlement by the related government bureau that is similar with previous years and the rest is due from certain corporate customers related to installation services as they normally settle the outstanding balances after 90 days overdue with reference to their historical settlement pattern. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the years ended 31 December 2020 and 2019 are set out in note 40(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 24. PREPAYMENTS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments for inventories	22,260	10,908
Prepayments for land use rights <i>(Note)</i>	15,500	–
Other receivables	22,573	22,918
Prepaid VAT	34,205	16,428
Refundable security deposits for sale and leaseback arrangements <i>(Note 31(f))</i>	6,200	5,450
Less: Allowance for credit losses	(4,116)	(2,394)
	<b>96,622</b>	53,310
Less: Amount classified as non-current assets	(42,696)	(14,526)
Current assets	<b>53,926</b>	38,784

*Note* : The Group prepaid RMB15,500,000 to acquire a land use right. Other receivables mainly include various receivables due from local governmental bureau in respect of certain construction projects incurred on their behalf and various refundable deposits as at 31 December 2020 and 2019.

Details of impairment assessment of other receivables for the years ended 31 December 2020 and 2019 are set out in note 40(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 25. 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:

	2020 RMB'000	2019 RMB'000
Provision of construction and upgrade services on wastewater treatment infrastructure <i>(Note (a))</i>	<b>210,881</b>	181,203
Provision of installation services <i>(Note (b))</i>	<b>21,137</b>	20,132
Less: Allowance for credit losses on the provision of installation services	<b>(2,606)</b>	(1,923)
	<b>229,412</b>	199,412
Less: Portion classified as non-current	<b>(210,881)</b>	(181,203)
Current portion	<b>18,531</b>	18,209

As at 1 January 2019, the Group's gross carrying amount of contract assets was RMB19,668,000 (allowance for credit losses: RMB1,062,000) 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 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 the increase in the Group's construction and upgrade services on wastewater treatment infrastructure during the year.

Details of the impairment assessment are set out in Note 40(b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 26. INVENTORIES

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	<b>31,931</b>	43,720
Consumables	<b>1,894</b>	1,631
	<b>33,825</b>	45,351

### 27. BANK BALANCES AND CASH

As at 31 December 2020, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.89% (2019: from 0.01% to 1.38%) per annum.

### 28. TRADE PAYABLES

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

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 6 months	<b>44,378</b>	42,204
Between 6 months and 12 months	<b>3,823</b>	4,463
Over 1 year	<b>10,787</b>	7,467
	<b>58,988</b>	54,134

The credit period on purchases are generally within 6 months.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 29. OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Wages and welfare payable	50,175	38,236
Other taxes payable	11,557	9,930
Construction payables	929,819	619,134
Payables for purchases of wastewater treatment plants	5,420	6,212
Payables to governmental bureau	59,737	65,238
Interest payable on borrowings	11,202	5,006
Interest payable on bonds payable	22,467	22,467
Other payables	35,895	27,665
	<b>1,126,272</b>	793,888

### 30. 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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Provision of installation services	235,528	193,023
Provision of tap water supply	42,165	32,282
Sales of equipment	-	1,074
	<b>277,693</b>	226,379

The contract liabilities as at 31 December 2019 were recognised as revenue for the year ended 31 December 2020 and those as at 31 December 2020 will be recognised as revenue for the year ending 31 December 2021.

The Group typically receives 70% to 100% (2019: 70% to 100%) of consideration from customers in advance before construction work of installation services commence. 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.

The Group typically receives consideration from customers in advance no later than 1 month before tap water supply services commence. Changes of contract liabilities were mainly due to the increase of coverage area and number of users that the Group has received consideration from customers in advance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 31. BORROWINGS

	2020 RMB'000	2019 RMB'000
Unsecured bank borrowings without corporate guarantee (Note (a))	291,000	220,000
Unsecured bank borrowings with corporate guarantee (Note (b))	770,645	370,512
Secured bank borrowings (Note (c))	297,795	400,200
Unsecured other borrowings (Notes (d) and (g))	500,137	182,698
Unsecured other borrowing with corporate guarantee (Notes (e) and (g))	45,000	66,000
Secured other borrowings (Note (f))	136,991	184,163
	<b>2,041,568</b>	1,423,573
The carrying amounts repayable:		
Within one year	464,146	439,234
Within a period of more than one year but not exceeding two years	167,392	176,576
Within a period of more than two years but not exceeding five years	513,472	454,303
Within a period of more than five years	850,960	300,762
The carrying amount of other borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable within one year	45,598	52,698
	<b>2,041,568</b>	1,423,573
Less: Amounts due within one year shown under current liabilities	<b>(509,744)</b>	(491,932)
Amounts shown under non-current liabilities	<b>1,531,824</b>	931,641
The Group's borrowings are analysed as:		
– At fixed rates	907,329	545,861
– At floating rates*	1,134,239	877,712
	<b>2,041,568</b>	1,423,573

\* These borrowings carry interest at Loan Prime Rates set by The People's Bank of China plus margins.

Details of pledged assets for the Group's secured bank borrowings are set out in Note 46.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 31. BORROWINGS (CONTINUED)

Notes:

- (a) As at 31 December 2020, the unsecured bank borrowings include a bank borrowing of RMB41,000,000 bearing interest at a fixed rate of 3.90% per annum and a bank borrowing of RMB100,000,000 bearing interest at a fixed rate of 3.92% per annum. The remaining of bank borrowings of RMB150,000,000 bear interest at floating rates ranging from 4.35% to 4.90% per annum. These bank borrowings are repayable from January 2021 to October 2030.

As at 31 December 2019, the unsecured bank borrowings of RMB220,000,000 bore interest at floating rates ranging from 4.73% to 4.96% per annum. These bank borrowings were repayable from January 2020 to December 2020.

- (b) As at 31 December 2020, included in the unsecured bank borrowings are bank borrowings of RMB44,200,000 bearing interest at a fixed rate of 7.50% per annum, the remaining unsecured bank borrowings of RMB726,445,000 bear interest at floating rates ranging from 3.10% to 5.78% per annum. These unsecured bank borrowings are repayable from April 2021 to December 2035 and their repayments are guaranteed by the group companies.

As at 31 December 2019, the unsecured bank borrowings included bank borrowings of RMB47,000,000 bearing interest at a fixed rate of 7.50% per annum, and the remaining unsecured bank borrowings bore interest at floating rates ranging from 4.57% to 5.78% per annum. These unsecured bank borrowings were repayable from March 2020 to December 2035 and their repayments were guaranteed by the group companies.

- (c) (i) As at 31 December 2020, the bank borrowings are comprised of the following:
- Bank borrowing of RMB129,280,000 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 2021 to April 2027.
  - Bank borrowings of RMB20,000,000 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 2021 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
  - Bank borrowings of RMB40,000,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from June 2021 to January 2027. The repayment of the bank borrowings are guaranteed by 瀘州市興瀘融資擔保集團有限公司 (Luzhou City Xinglu Financing Guarantee Group Co., Ltd.) ("Xinglu Financing Guarantee").
  - Bank borrowings of RMB55,000,000 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 2021 to August 2026. The repayment of the bank borrowings are guaranteed by the group companies.
  - Bank borrowings of RMB53,515,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from January 2022 to July 2035. 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 2020

## 31. BORROWINGS (CONTINUED)

Notes: (Continued)

- (c) (ii) As at 31 December 2019, the bank borrowings were 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, bore interest at a floating rate of 4.90% per annum and were repayable by instalments from May 2020 to May 2024. The repayment of the bank borrowings were guaranteed by the group companies.
  - A bank borrowing of RMB115,700,000 was secured by the Group's charging right for certain tap water supply fees, bore interest at a floating rate of 5.88% per annum and was repayable by instalments from June 2020 to April 2027.
  - Bank borrowings of RMB6,000,000 were secured by certain of the Group's buildings and tap water supply plants, bore interest at a fixed rate of 6.41% per annum and were repayable by instalments before January 2020.
  - Bank borrowings of RMB15,000,000 were secured by the Group's charging right for certain tap water supply fees, bore interest at a fixed rate of 6.41% per annum and were repayable by instalments before December 2020.
  - Bank borrowings of RMB43,500,000 were secured by the Group's charging right for certain wastewater treatment fees and certain land, bore interest at a floating rate of 5.64% per annum and were repayable by instalments from June 2020 to December 2021. The repayment of the bank borrowings were guaranteed by the group companies.
  - Bank borrowings of RMB45,000,000 were secured by the Group's charging right for certain wastewater treatment fees, bore interest at a fixed rate of 7.00% per annum and were repayable by instalments from June 2020 to January 2027. The repayment of the bank borrowings were guaranteed by Xinglu Financing Guarantee.
  - Bank borrowings of RMB65,000,000 were secured by the Group's equity in Fanxing Environmental, bore interest at a floating rate of 5.28% per annum and were repayable by instalments from June 2020 to August 2026. The repayment of the bank borrowings were guaranteed by the group companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 31. BORROWINGS (CONTINUED)

*Notes: (Continued)*

- (d) (i) As at 31 December 2020, the other borrowings are comprised of the following:
- Other borrowings of RMB45,598,000 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 government bureau, bears interest at fixed rate of 3.41% per annum and is repayable on March 2026.
  - A loan of RMB40,000,000 is from local government bureau, bears interest at fixed rate of 3.25% per annum and is repayable on August 2030.
  - A loan of RMB165,000,000 is from local government bureau, bears interest at fixed rate of 3.72% per annum and is repayable on August 2035.
  - A loan of RMB200,000,000 is from local government bureau, bears interest at fixed rate of 3.98% per annum and is repayable on August 2050.
- (ii) As at 31 December 2019, the other borrowings were comprised of the following:
- Other borrowings of RMB52,698,000 from independent third parties bore interest at fixed rates ranging from nil to 8.02% per annum and were repayable on demand.
  - A loan of RMB130,000,000 was from local governmental bureau, bore interest at a fixed rate of 3.41% per annum and was repayable on March 2026.
- (e) The other borrowing at 31 December 2020 and 2019 represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., bearing 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 31. BORROWINGS (CONTINUED)

*Notes: (Continued)*

- (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 did 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) was accounted for as borrowing within the scope of IFRS 9. As at 31 December 2020 and 2019, the borrowing was secured by certain tap water supply infrastructure and a refundable security deposit of RMB5,000,000 (2019: RMB5,000,000) of the Group, bore interest at a fixed rate of 4.28% (2019: 4.28%) per annum and was repayable by instalments up to April 2024. At end of the reporting period, the outstanding borrowings amounted to RMB80,216,000 (2019: RMB155,033,000).

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 has drawn down RMB30,000,000 on 24 December 2019 and RMB50,000,000 on 18 May 2020, respectively. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale accordingly, the aggregate transfer proceeds of RMB77,680,000 (net of aggregate issue costs of RMB2,320,000) (2019: 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 2020 and 2019, respectively. As at 31 December 2020 and 2019, the borrowings are secured by certain wastewater treatment infrastructure and a refundable security deposit of RMB1,200,000 (2019: RMB450,000) of the Group. The borrowing of RMB29,130,000 bears interest at a fixed rate of 4.28% per annum and the remaining borrowing of RMB48,550,000 bear interest at a fixed rate of 3.90% per annum. These borrowings are repayable by instalments up to May 2025. At end of the reporting period, the outstanding borrowings amounted to RMB56,775,000 (2019: RMB29,130,000).

- (g) At 31 December 2020, the Group has received from the government loans at below-market rates of interest with aggregate proceeds of RMB601,000,000, including the unsecured other borrowing with corporate guarantee amounting to RMB66,000,000 in note 31(e), to finance the construction of certain infrastructures. The initial fair values of the related loans are RMB499,539,000. The benefits derived from such loans of RMB101,461,000, that represent the difference between the proceeds and the initial fair values of the loans, are recognised as deferred income and will be recognised in profit or loss on the same basis as depreciation for the related infrastructures. At 31 December 2020, such government loans are measured at amortised cost using the effective interest method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 32. DEFERRED INCOME – GOVERNMENT GRANTS

Government grants of RMB27,667,000 (2019: RMB11,863,000) have been received in the current year towards the construction of wastewater treatment plants and tap water supply network.

The amount of RMB173,849,000 to be amortised at 31 December 2019 and the aforesaid grants received in current year are transferred to other income over the useful lives of the relevant assets. This policy has resulted in a credit to other income in the current year of RMB7,492,000 (2019: RMB6,726,000). As at 31 December 2020, an amount of RMB295,485,000 remains to be amortised and includes the benefits derived from government loans at below-market rates of interest amounting to RMB101,461,000 (note 31(g)).

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current portion	<b>281,717</b>	173,849
Current portion	<b>13,768</b>	–
	<b>295,485</b>	173,849

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 33. LEASE LIABILITIES

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Lease liabilities payable:		
Within one year	<b>128</b>	37
Within a period of more than one year but not exceeding two years	<b>88</b>	34
Within a period of more than two years but not exceeding five years	<b>111</b>	12
	<b>327</b>	83
Less: Amount due for settlement within 12 months shown under current liabilities	<b>(128)</b>	(37)
Amount due for settlement after 12 months shown under non- current liabilities	<b>199</b>	46

The weighted average incremental borrowing rate applied to lease liabilities is 4.87% (2019: 4.49%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 34. PROVISIONS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At 1 January	<b>297,438</b>	230,933
Provisions recognised	<b>59,431</b>	56,111
Unwinding of the discount ( <i>Note 9</i> )	<b>14,234</b>	10,924
Payments	<b>(2,777)</b>	(530)
At 31 December	<b>368,326</b>	297,438
Less: Amount classified as current liabilities	<b>(13,253)</b>	(3,657)
Non-current portion	<b>355,073</b>	293,781

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 2020 is 4.65% (2019: 4.90%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 35. 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 RMB715 million (2019: RMB700 million) as at 31 December 2020.

The movement of the liability component of the bonds payable for the year is set out as below:

	First tranche <i>RMB'000</i>	Second tranche <i>RMB'000</i>	Total <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)
At 31 December 2019	497,835	199,063	696,898
Interest accrued for in the year	30,400	10,178	40,578
Interest payable included in other payables	(29,950)	(10,000)	(39,950)
<b>At 31 December 2020</b>	<b>498,285</b>	<b>199,241</b>	<b>697,526</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 36. SHARE CAPITAL

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning and end of the year	<b>859,710</b>	859,710
	<i>'000</i>	<i>'000</i>
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.

### 37. 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 2020

### 37. 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 were 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)
	<u>126,257</u>

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 2020

### 37. 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 were 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 2020

## 38. 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
		2020	2019		
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%	RMB108,639,500	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 Xinglu Water (Group) Crystal Mall Co., Ltd.	23 February 1996	100.00%	100.00%	RMB520,000	Sale of materials
Xinghe Water*	29 August 2018	50.00%	50.00%	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
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. ("Xingxu Water")	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%	92.50%	RMB119,946,400	Provision of wastewater treatment service and related construction and upgrade services
Yongxing Water*	31 July 2019	50.90%	50.90%	RMB3,000,000	Provision of wastewater treatment service
Qingbaijiang Water	13 December 2019	99.90%	N/A	RMB34,711,400	Provision of wastewater treatment service and related construction and upgrade services
Dechang Water	2 January 2020	88.00%	N/A	RMB17,739,000	Provision of wastewater treatment service and related construction and upgrade services
Leibo Water	18 February 2020	51.00%	N/A	RMB60,000,000	Provision of tap water supply, installation and related construction and upgrade services
Zhihui Water**	2 January 2020	35.00%	N/A	RMB5,000,000	Sale of equipments

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

- \* Except for Xinghe Water and Yongxing Water, all the above subsidiaries are directly held by the Company. Xinghe Water is the subsidiary of Xinglu Wastewater Treatment with 51% of equity interests in Xinghe Water. Yongxing Water is the subsidiary of Fanxing Environmental with 55% of equity interests in Yongxing Water.
- \*\* The Group holds 35% equity interest in Zhihui Water. The Group entered into agreements with two other equity owners (which hold 25% and 10% equity interests in Zhihui Water respectively) (the "Other Equity Owners") so that the Other Equity Owners agree to vote in all equity owners' meetings of Zhuhui Water in accordance with the Group's instructions. Accordingly, the directors of the Company consider that the Group holds the majority of voting rights in the equity owners' meetings of Zhihui Water and the Group has control over Zhihui Water.

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

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

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

Name of subsidiary	Proportion ownership interest held by non-controlling interests At 31 December		Profit (loss) allocated to non-controlling interests Year ended 31 December		Accumulated non-controlling interests At 31 December	
	2020	2019	2020	2019	2020	2019
	%	%	RMB'000	RMB'000	RMB'000	RMB'000
Beijiao Water	1.58	1.58	(82)	40	1,782	1,864
Hejiang Water	14.07	14.07	3,042	2,638	27,995	24,953
Xinglu Wastewater Treatment	2.00	2.00	1,591	1,460	15,590	13,999
Xinghe Water	49.00	49.00	4,651	2,217	29,273	24,622
Weiyuan Qingxi Water	40.00	40.00	5,474	1,953	23,363	17,889
Weiyuan Installation Company	40.00	40.00	1,505	1,750	8,805	7,300
Leshan Xingjia	5.00	5.00	-	-	1,920	1,920
Fanxing Environmental	7.50	7.50	642	814	10,713	10,071
Dechang Water	12.00	N/A	-	N/A	2,128	N/A
Leibo Water	49.00	N/A	(245)	N/A	26,114	N/A
Zhihui Water	65.00	N/A	188	N/A	3,438	N/A
Individually immaterial subsidiaries with non-controlling interests			(310)	60	5,174	5,448
			<b>16,456</b>	10,932	<b>156,295</b>	108,066

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 2020 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 2020

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

#### Hejiang Water

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Current assets	<b>38,082</b>	128,138
Non-current assets	<b>363,708</b>	261,391
Current liabilities	<b>50,891</b>	55,577
Non-current liabilities	<b>151,941</b>	156,611
Equity attributable to owners of the Company	<b>170,963</b>	152,388
Non-controlling interests	<b>27,995</b>	24,953

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Hejiang Water (Continued)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	<b>166,313</b>	155,797
Expenses	<b>(144,696)</b>	(137,046)
Profit and total comprehensive income for the year	<b>21,617</b>	18,751
Profit and total comprehensive income attributable to owners of the Company	<b>18,575</b>	16,113
Profit and total comprehensive income attributable to non-controlling interests	<b>3,042</b>	2,638
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	<b>14,148</b>	21,314
Net cash outflow from investing activities	<b>(94,563)</b>	(103,118)
Net cash (outflow) inflow from financing activities	<b>(1,976)</b>	153,003
Net cash (outflow) inflow	<b>(82,391)</b>	71,199

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Xinglu Wastewater Treatment and its subsidiary (Xinghe Water)

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Consolidated:		
Current assets	<b>572,810</b>	306,419
Non-current assets	<b>1,569,111</b>	1,165,351
Current liabilities	<b>447,518</b>	166,727
Non-current liabilities	<b>880,928</b>	580,708
Equity attributable to owners of the Company	<b>768,612</b>	685,714
Non-controlling interests of Xinglu Wastewater Treatment	<b>15,590</b>	13,999
Non-controlling interests of Xinghe Water	<b>29,273</b>	24,622



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Xinglu Wastewater Treatment and its subsidiary (Xinghe Water) (Continued)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Consolidated:		
Revenue	<b>730,442</b>	440,342
Expenses	<b>(641,302)</b>	(365,353)
Profit and total comprehensive income for the year	<b>89,140</b>	74,989
Profit and total comprehensive income attributable to owners of the Company	<b>82,898</b>	71,312
Profit and total comprehensive income attributable to non-controlling interests of Xinglu Wastewater Treatment	<b>1,591</b>	1,460
Profit and total comprehensive income attributable to non-controlling interests of Xinghe Water	<b>4,651</b>	2,217
Dividends paid to non-controlling interests of Xinglu Wastewater Treatment	-	800
Consolidated:		
Net cash inflow from operating activities	<b>143,816</b>	61,123
Net cash outflow from investing activities	<b>(223,572)</b>	(167,065)
Net cash inflow from financing activities	<b>275,913</b>	92,136
Net cash inflow (outflow)	<b>196,157</b>	(13,806)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Weiyuan Qingxi Water

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Current assets	<b>39,211</b>	37,718
Non-current assets	<b>179,916</b>	177,751
Current liabilities	<b>130,289</b>	139,509
Non-current liabilities	<b>30,430</b>	31,237
Equity attributable to owners of the Company	<b>35,045</b>	26,834
Non-controlling interests	<b>23,363</b>	17,889

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Weiyuan Qingxi Water (Continued)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	<b>58,099</b>	41,091
Expenses	<b>(44,414)</b>	(36,209)
Profit and total comprehensive income for the year	<b>13,685</b>	4,882
Profit and total comprehensive income attributable to owners of the Company	<b>8,211</b>	2,929
Profit and total comprehensive income attributable to non-controlling interests	<b>5,474</b>	1,953
Net cash inflow from operating activities	<b>29,546</b>	4,605
Net cash outflow from investing activities	<b>(10,428)</b>	(1,141)
Net cash (outflow) inflow from financing activities	<b>(25,549)</b>	5,839
Net cash (outflow) inflow	<b>(6,431)</b>	9,303

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

### Leibo Water

	<b>2020</b> <b>RMB'000</b>
Current assets	<b>29,565</b>
Non-current assets	<b>27,541</b>
Current liabilities	<b>3,812</b>
Non-current liabilities	–
Equity attributable to owners of the Company	<b>27,180</b>
Non-controlling interests	<b>26,114</b>
	<b>Period from establishment date to 31 December 2020 RMB'000</b>
Revenue	<b>5,865</b>
Expenses	<b>(6,365)</b>
Loss and total comprehensive expense for the year	<b>(500)</b>
Loss and total comprehensive expense attributable to owners of the Company	<b>(255)</b>
Loss and total comprehensive expense attributable to non-controlling interests	<b>(245)</b>
Net cash outflow from operating activities	<b>(4,697)</b>
Net cash outflow from investing activities	<b>(3,480)</b>
Net cash inflow from financing activities	<b>29,958</b>
Net cash inflow	<b>21,781</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 39. 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 31 and 35, 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 and retained profits.

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:

	2020 RMB'000	2019 RMB'000
Debts ( <i>note 1</i> )	2,739,094	2,120,471
Less: Bank balances and cash	(1,036,193)	(1,095,877)
Net debts	1,702,901	1,024,594
Equity attributable to owners of the Company ( <i>note 2</i> )	2,176,637	2,019,412
Net debts to equity ratio	78.2%	50.7%

Notes:

1. Debts comprise long-term and short-term borrowings as detailed in note 31 and bonds payable as detailed in note 35.
2. Total equity includes all capital and reserves of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Financial assets</b>		
Financial assets at amortised cost	<b>3,073,813</b>	2,560,907
Equity instruments at FVTOCI	<b>1,854</b>	57,765
<b>Financial liabilities</b>		
Amortised cost	<b>3,912,797</b>	2,958,563

#### (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 2020

### 40. 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 stable 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:

	2020 RMB'000	2019 RMB'000
Decrease in post-tax profit	964	585

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 2020

### 40. 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 raised funds in Hong Kong Dollars from the initial public offering in 2017. 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:

	2020 RMB'000	2019 RMB'000
Bank balances – Hong Kong Dollars (HK\$)	1,157	1,232

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

	2020 RMB'000	2019 RMB'000
Increase in post-tax profit	49	52

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

##### *Credit risk and impairment assessment*

As at 31 December 2020, 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment (Continued)*

##### *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 RMB120,503,000 at 31 December 2020 (2019: RMB87,318,000), 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 2020 and 2019 in relation to the Group's tap water supply operation.

##### 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 RMB218,616,000 at 31 December 2020 (2019: RMB172,820,000); and no lifetime ECL was made for trade receivables as at 31 December 2020 and 2019 in relation to its wastewater treatment operation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment (Continued)*

##### *Trade receivables and contract assets (attributable to provision for installation services) (Continued)*

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 RMB18,803,000 (2019: RMB11,470,000) and contract assets of gross amount of RMB21,137,000 (2019: RMB20,132,000) at 31 December 2020 in relation to its installation services operation; and lifetime ECL of RMB4,255,000 and RMB2,606,000 (2019: RMB1,695,000 and RMB1,923,000) 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 2020 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 RMB1,659,296,000 at 31 December 2020 (2019: RMB1,169,143,000), since their initial recognition and the 12m ECL on the Group's receivables under service concession arrangements as at 31 December 2020 and 2019 is not material.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment (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 2020 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 RMB210,881,000 at 31 December 2020 (2019: RMB181,203,000), since their initial recognition and the 12m ECL on the Group's non-current contract assets as at 31 December 2020 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 RMB28,773,000 (2019: RMB28,368,000) at 31 December 2020 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, 12m ECL of RMB1,084,000 (2019: RMB539,000) and lifetime ECL of RMB3,032,000 (2019: RMB1,855,000) were made for other receivables as at 31 December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Credit risk and impairment assessment (Continued)*

##### *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 2020 and 2019 is considered necessary.

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 2020

### 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment (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	2020		2019	
			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	53,836		45,022	
	Level 3	– Not credit-impaired	66,667	120,503	42,296	87,318
Trade receivables	Level 1	Lifetime ECL		218,616		172,820
– wastewater treatment		– Not credit-impaired				
Trade receivables	Note (i)	Lifetime ECL	15,780		9,768	
– installation services		– Not credit-impaired	3,023	18,803	1,702	11,470
		– Credit-impaired				
				357,922		271,608
Contract assets	Note (ii)	Lifetime ECL	18,990		18,800	
– installation services		– Not credit-impaired	2,147	21,137	1,332	20,132
		– Credit-impaired				
Contract assets attributable to construction and upgrade of wastewater treatment infrastructure	Level 1	12m ECL		210,881		181,203
				232,018		201,335
Receivables under service concession arrangements	Level 1	12m ECL		1,659,296		1,169,143
Other receivables	Note (iii)	12m ECL	25,412		25,942	
		Lifetime ECL	3,361	28,773	2,426	28,368
		– Credit-impaired				
Bank balances	Level 1	12m ECL		1,036,188		1,095,859

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Credit risk and impairment assessment (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 2020			
Level 1	<b>0.68%</b>	<b>74</b>	<b>1</b>
Level 2	<b>2.23%</b>	<b>6,021</b>	<b>134</b>
Level 3	<b>14.14%</b>	<b>9,685</b>	<b>1,369</b>
Level 4	<b>91.00%</b>	<b>3,023</b>	<b>2,751</b>
		<b>18,803</b>	<b>4,255</b>
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
		11,470	1,695

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Credit risk and impairment assessment (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 2020			
Level 1	0.17%	969	2
Level 2	3.10%	15,868	492
Level 3	15.43%	2,153	332
Level 4	82.92%	2,147	1,780
		<b>21,137</b>	<b>2,606</b>
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
		20,132	1,923

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### *Credit risk and impairment assessment (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 2020			
Level 1	<b>0.96%</b>	<b>1,729</b>	<b>17</b>
Level 2	<b>4.12%</b>	<b>22,575</b>	<b>929</b>
Level 3	<b>12.15%</b>	<b>1,108</b>	<b>138</b>
Level 4	<b>90.21%</b>	<b>3,361</b>	<b>3,032</b>
		<b>28,773</b>	<b>4,116</b>
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
		28,368	2,394



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

##### *Credit risk and impairment assessment (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		Current 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 2019</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
Credit losses recognised	1,286	2,047	580	1,123	1,331	1,199	7,566
Credit losses transferred	598	(598)	297	(297)	446	(446)	-
Credit losses reversed	(571)	(202)	(135)	(885)	(600)	(208)	(2,601)
<b>Balances as at 31</b>							
<b>December 2020</b>	2,751	1,504	1,780	826	3,032	1,084	10,977

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 40. FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Liquidity risk

As disclosed in note 3, the Group had net current liabilities of RMB463,570,000 (2019: RMB73,490,000) as at 31 December 2020. In the opinion of the Directors, the consolidated financial statements 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 2020. 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. As at 31 December 2020, the Group had available unutilised bank loan facilities of RMB1,188,243,000. Details of the bank borrowings, bonds payable and capital of the Group during the year have been set out in notes 31, 35 and 36, 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 2020</b>							
Borrowings							
- Fixed rates	5.18%	210,103	91,556	77,478	1,039,813	1,418,950	907,329
- Variable rates	5.19%	192,750	93,878	165,512	964,901	1,417,041	1,134,239
Bonds payable - Fixed rates	5.11%-6.11%	20,556	20,574	715,564	-	756,694	697,526
Trade and other payables	-	1,173,703	-	-	-	1,173,703	1,173,703
		1,597,112	206,008	958,554	2,004,714	4,766,388	3,912,797
Lease liabilities	4.87%	-	142	102	138	382	327
<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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. 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

	Ownership interest	31/12/2020 RMB'000	31/12/2019 RMB'000
Unquoted equity investments at fair value			
Xiangjiaba	17.51%	–	53,883
Others		1,854	3,882
		1,854	57,765

*Note:* The fair values are determined based on adjusted net assets value of the investment that is categorised as level 3 of fair value hierarchy. An increase in the adjusted net asset value of such investment used would result in an increase in the fair value of the equity investment, and vice versa.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 40. 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

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

	As at 31 December 2020		As at 31 December 2019	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Bonds payable (Level 1)	697,526	715,000	696,898	700,000

The fair value of bonds payable was based on quoted market price.

##### (iii) Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity investments RMB'000
At 1 January 2019, upon initial application of IFRS 9	57,273
Net fair value gain recognised in other comprehensive income	492
At 31 December 2019	57,765
Net fair value loss recognised in other comprehensive expense	(386)
Derecognition of investment in equity instrument at FVTOCI	(55,525)
At 31 December 2020	1,854

Net fair value gain (loss) in other comprehensive income/expense related to equity instruments at FVTOCI held at the end of the current reporting period is reported as change in "FVTOCI reserve".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 41. OPERATING LEASING ARRANGEMENTS

#### 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.

Undiscounted lease payments receivable on leases are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within one year	608	271
In the second year	205	219
In the third year	197	16
In the fourth year	199	7
In the fifth year	199	7
After five years	832	12
	<b>2,240</b>	532

### 42. CAPITAL COMMITMENTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Capital expenditure contracted but not provided for: construction and upgrading infrastructure	<b>1,021,354</b>	895,218

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 43. 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	78,000	–	–	–	78,000
Interest recognised	58,388	22,795	1	–	81,184
Transfer to interest payable on borrowings	(58,388)	(22,467)	–	–	(80,855)
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 2020	1,423,573	696,898	83	–	2,120,554
Financing cash flows	719,456	(39,950)	(86)	(51,583)	627,837
Dividend declared	–	–	–	51,583	51,583
Interest recognised	92,935	40,578	6	–	133,519
Transfer to interest payable on borrowings	(92,935)	–	–	–	(92,935)
New leases entered	–	–	324	–	324
Discounted at market interest rates (note 31)	(101,461)	–	–	–	(101,461)
<b>At 31 December 2020</b>	<b>2,041,568</b>	<b>697,526</b>	<b>327</b>	<b>–</b>	<b>2,739,421</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, a non-controlling equity owner of a subsidiary contributed to the registered capital of a subsidiary upon its establishment in the form of property, plant and equipment of RMB22,740,000 (Note 15), investment properties of RMB1,318,000 (Note 17) and right-of-use assets of RMB2,301,000 (Note 16), respectively.

During the year ended 31 December 2019, the wastewater treatment infrastructure (contributed by a non-controlling equity owner of a subsidiary at an original value of RMB27,000,000 during the year ended 31 December 2018) 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.

### 45. 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 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 2020

### 45. RELATED PARTY TRANSACTIONS (CONTINUED)

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

		Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Tap water supply income			
– Xinglu Investment	An immediate holding company	15	13
– Luzhou Laojiao	A shareholder	338	157
– Other companies	Fellow subsidiaries	6,076	3,528
Installation service income received			
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	A fellow subsidiary	–	2,224
– Luzhou Lingang Investments Group Co., Ltd.	A fellow subsidiary	8,949	13,226
– Other companies	Fellow subsidiaries	583	1,289
Water quality testing income	Fellow subsidiaries	54	4
Property management fees	A fellow subsidiary	(4,110)	(4,598)
Garbage collection service income	Fellow subsidiaries	–	436
Raw material procurement	A fellow subsidiary	(2,138)	(4,751)
Construction and upgrade services cost	Fellow subsidiaries	(3,895)	–
Utilities expense	Fellow subsidiaries	(114)	–

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 2020 and 2019, 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 2020

### 45. 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:

	2020 RMB'000	2019 RMB'000
Short-term benefits	4,154	5,200

### 46. ASSETS PLEDGED FOR SECURITY

The carrying amount of the assets at the each reporting period pledged to secure bank borrowings are analysed as follows:

	2020 RMB'000	2019 RMB'000
<b>Right-of-use assets</b>	<b>14,531</b>	14,866
Intangible assets	–	6,684
The property, plant and equipment	–	1,038
Refundable security deposits for sale and leaseback arrangements (note 31 (f))	<b>6,200</b>	5,450
	<b>20,731</b>	28,038

Note:

During the year ended 31 December 2020, the Group repaid the bank borrowings with pledge of intangible assets and the property, plant and equipment.

During the year ended 31 December 2020, the Group pledged its charging right for certain tap water supply fees and charging right for certain wastewater treatment fees. In addition, the Group pledged its equity interest in Fanxing Environmental. These pledges will be released upon the repayment of the borrowings to the banks.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Non-current Assets</b>		
Property, plant and equipment	20,523	16,555
Right-of-use assets	27,853	11,469
Intangible assets	2,524,948	1,825,574
Equity instruments at fair value through other comprehensive income	1,854	57,765
Interest in an associate	54,602	–
Prepayment and other receivables	5,000	5,000
Investment properties	1,053	–
Investments in subsidiaries	1,012,376	934,654
Deferred tax assets	13,323	8,519
	<b>3,661,532</b>	2,859,536
<b>Current Assets</b>		
Inventories	17,715	28,191
Trade receivables	87,739	62,853
Prepayments and other receivables	20,889	11,591
Contract assets	17,652	17,330
Amounts due from subsidiaries	80,375	50,134
Bank balances and cash	529,039	704,842
	<b>753,409</b>	874,941

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Current Liabilities</b>		
Trade payables	34,954	42,243
Other payables	567,396	366,248
Tax liabilities	859	1,997
Borrowings	319,380	315,070
Lease liabilities	9	12
Provisions	5,465	1,001
Deferred income-government grants	4,378	–
Contract liabilities	232,653	181,726
	<b>1,165,094</b>	908,297
<b>Net Current Liabilities</b>	<b>(411,685)</b>	(33,356)
<b>Total Assets Less Current Liabilities</b>	<b>3,249,847</b>	2,826,180
<b>Capital and Reserves</b>		
Share capital	859,710	859,710
Reserves	757,794	748,886
<b>Total Equity</b>	<b>1,617,504</b>	1,608,596
<b>Non-current Liabilities</b>		
Borrowings	745,880	429,831
Lease liabilities	–	9
Provisions	97,036	67,232
Deferred income-government grants	91,901	23,614
Bonds payable	697,526	696,898
	<b>1,632,343</b>	1,217,584
	<b>3,249,847</b>	2,826,180

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

#### Movement in the Company's reserves

	<b>Capital reserve</b> <i>RMB'000</i>	<b>FVTOCI reserve</b> <i>RMB'000</i>	<b>Statutory surplus reserves</b> <i>RMB'000</i>	<b>Retained profits</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2019	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
Profit for the year	-	-	-	60,031	60,031
Other comprehensive expense for the year	-	(290)	-	-	(290)
Total comprehensive (expense) income for the year	-	(290)	-	60,031	59,741
Appropriation for the year	-	-	17,090	(17,090)	-
Derecognition of investment in equity instrument at FVTOCI	-	(2,245)	-	2,995	750
2019 final dividend declared and fully paid	-	-	-	(51,583)	(51,583)
At 31 December 2020	405,334	566	60,876	291,018	757,794

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 48. EVENTS AFTER THE REPORTING PERIOD

- (a) The non-controlling equity owner 合江縣農業旅遊開發投資集團有限公司 (Hejiang County Agricultural Tourism Development Investment Group Co., Ltd.) is approved by the directors of the Company to increase the capital of Hejiang Water by cash of RMB16,000,000, which will increase the paid-in registered capital of Hejiang Water by RMB8,300,000 and decrease the equity interest attributable to the Group from 85.93% to 79.83%.
- (b) On 18 March 2021, one of equity owners of Xiangjiaba, 四川省水利發展集團有限公司 (Sichuan Water Resource Development Group Co., Ltd.), is approved by the directors of Xiangjiaba to increase the capital injection into Xiangjiaba by cash amounting to RMB113 million, which will decrease the Group's equity interest in Xiangjiaba from 17.51% to 12.72%.