

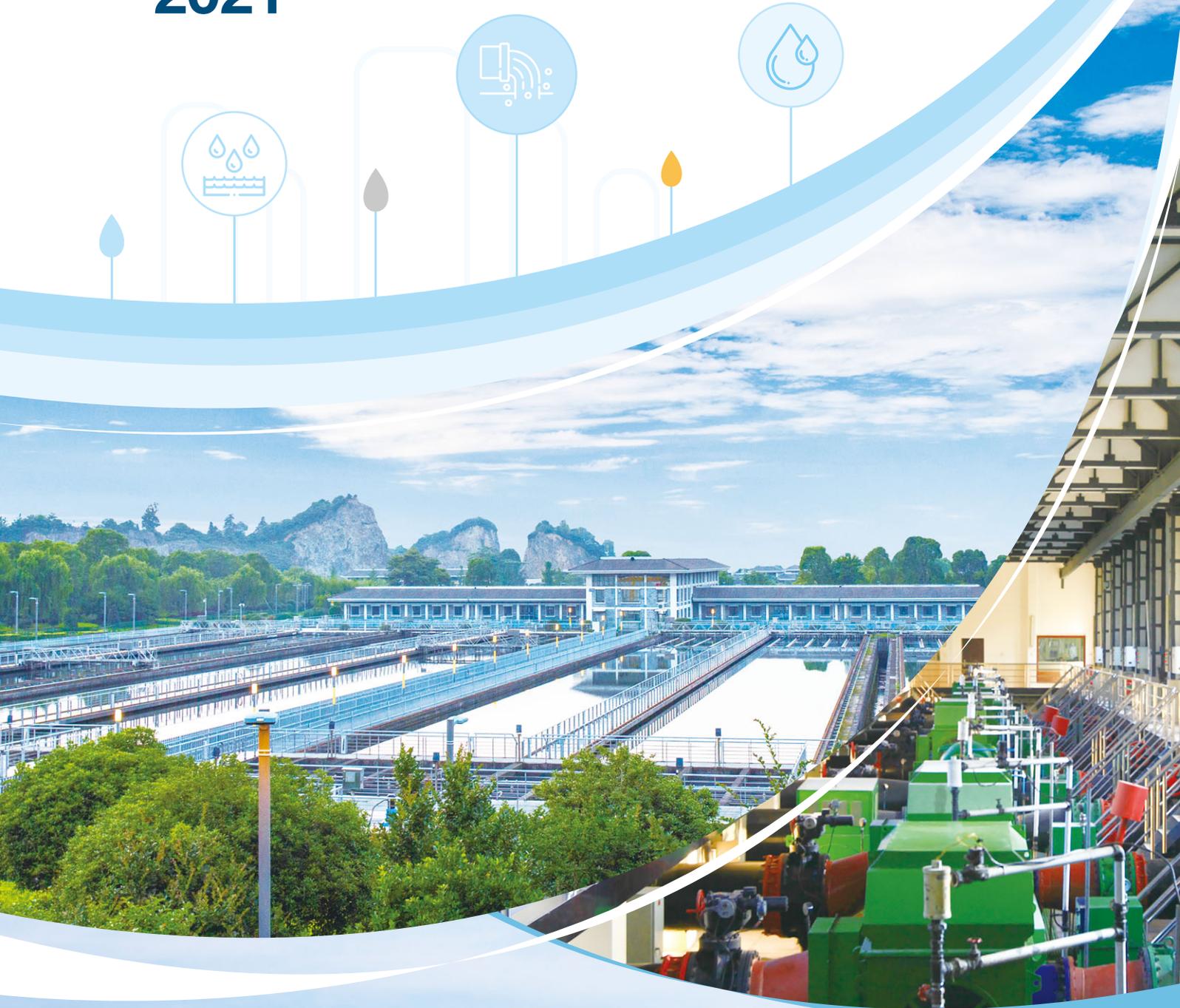


台州市水務集團股份有限公司 Taizhou Water Group Co., Ltd.*

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

Stock code : 1542

Annual Report 2021



* for identification purposes only

CONTENT

2	Corporate Information
4	Definitions
8	Financial Highlights
9	Chairman's Statement
12	Management Discussion and Analysis
21	Biographies of Directors, Supervisors and Senior Management
32	Report of Directors
53	Report of the Supervisory Committee
55	Corporate Governance Report
67	Independent Auditor's Report
74	Consolidated Statement of Profit or Loss and Other Comprehensive Income
75	Consolidated Statement of Financial Position
77	Consolidated Statement of Changes in Equity
78	Consolidated Statement of Cash Flows
80	Notes to Financial Statements
146	Five-Year Financial Summary





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Jun (*Chairman of the Board*)
Mr. Zhang Junzhou

Non-executive Directors

Mr. Wang Haibo
Mr. Wang Haiping
Ms. Fang Ya
Mr. Yu Yangbin
Ms. Huang Yuyan
Mr. Yang Yide
Mr. Guo Dingwen
Mr. Lin Yang (appointed on 27 October 2021)
Mr. Sun Hua (resigned on 27 October 2021)

Independent Non-Executive Directors

Ms. Lin Suyan
Ms. Hou Meiwen
Mr. Li Wai Chung
Mr. Wang Yongyue
Mr. Huang Chun (appointed on 27 October 2021)
Mr. Zheng Jianzhuang (resigned on 27 October 2021)

REMUNERATION COMMITTEE

Mr. Wang Yongyue (*Chairman*)
Mr. Yang Jun
Mr. Zhang Junzhou
Mr. Huang Chun (appointed on 27 October 2021)
Ms. Lin Suyan
Mr. Zheng Jianzhuang (resigned on 27 October 2021)

NOMINATION COMMITTEE

Mr. Yang Jun (*Chairman*)
Mr. Yu Yangbin
Mr. Yang Yide
Mr. Huang Chun (appointed on 27 October 2021)
Ms. Lin Suyan
Ms. Hou Meiwen
Mr. Wang Yongyue
Mr. Zheng Jianzhuang (resigned on 27 October 2021)

AUDIT COMMITTEE

Mr. Li Wai Chung (*Chairman*)
Mr. Wang Haiping
Ms. Hou Meiwen

STRATEGY COMMITTEE

Mr. Yang Jun (*Chairman*)
Mr. Zhang Junzhou
Mr. Wang Haibo
Ms. Fang Ya
Ms. Huang Yuyan
Mr. Lin Yang (appointed on 27 October 2021)
Mr. Huang Chun (appointed on 27 October 2021)
Mr. Zheng Jianzhuang (resigned on 27 October 2021)
Mr. Sun Hua (resigned on 27 October 2021)

JOINT COMPANY SECRETARIES

Ms. Siu Pui Wah
Mr. Zheng Ranhan (appointed on 25 August 2021)
Ms. Chen Liying (resigned on 21 June 2021)

AUTHORISED REPRESENTATIVES

Mr. Yang Jun
Ms. Siu Pui Wah

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 308 Yin Quan Road
Xicheng Street
Huangyan District
Taizhou, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14/F., Golden Centre
188 Des Voeux Road Central
Hong Kong



CORPORATE INFORMATION

H SHARE REGISTRAR

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

LEGAL ADVISER

As to Hong Kong law

Jingtian & Gongcheng LLP
Suites 3203-3207
32/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law

Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza B
No. 28 Fengsheng Lane
Xicheng District Beijing 100032
PRC

COMPLIANCE ADVISER

Sinolink Securities (Hong Kong) Company Limited
Units 2505-06, 25/F
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China, Taizhou Branch
China Bank of Construction, Taizhou Huangyan Branch
Industrial and Commercial Bank of China,
Taizhou Huangyan Branch
Bank of China, Taizhou Luqiao District Branch
Taizhou Bank

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

1542

COMPANY WEBSITE

www.zjtzwater.com



DEFINITIONS

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

“AGM” or “Annual General Meeting”	the annual general meeting of the Company for the year ended 31 December 2021 to be convened and held on Tuesday, 28 June 2022, or any adjournment thereof
“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Binhai Water”	Taizhou Binhai Water Co., Ltd.* (台州市濱海水務有限公司), a limited liability company established in the PRC on 7 June 2016 and a subsidiary of our Company owned as to 51% by our Company and 49% by Taizhou City Water, our subsidiary, as at the date of this annual report
“Board” or “Board of Directors”	the board of Directors of the Company
“Chairman”	the chairman of the Board
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context otherwise requires, references in this annual report to “China” and the “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
“Company”	Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司), a joint stock company established in the PRC with limited liability on 30 June 1999, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1542)
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as promulgated by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company



DEFINITIONS

“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“Group”, “we” or “our”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in HKD
“Huangyan Water Supply”	Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.* (台州市黃岩城鄉自來水有限公司) (formerly known as Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司)), a limited liability company established in the PRC on 1 January 1989, and is owned as to 45% by the Company, 49% by Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司) and 6% by Taizhou Shengshui Equity Investment Partnership (Limited Partnership)* (台州盛水股權投資合夥企業(有限合夥)) as at the date of this annual report
“Initial Public Offering”	the successful initial public offering of the Company’s H Shares through the Stock Exchange on 31 December 2019
“Jiaobei Water Supply”	Taizhou Jiaobei Water Supply Co., Ltd.* (台州市椒北供水有限公司), a limited liability company established in the PRC on 26 August 2003, and is owned as to 49% by Jiaojiang Urban Development, 45% by the Company and 6% by Taizhou Shengshui Equity Investment Partnership (Limited Partnership) as at the date of this annual report
“Jiaojiang Urban Development”	Taizhou Jiaojiang Urban Development Investment Group Co., Ltd.* (台州市椒江城市發展投資集團有限公司), a limited liability company established in the PRC on 7 April 2011 and a wholly-owned subsidiary of Taizhou Jiaojiang District State-owned Assets Supervision and Administration Commission* (台州市椒江區國有資產監督管理委員會)
“Listing Date”	31 December 2019, being the date on which the H Shares of the Company were listed and from which dealings commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time



DEFINITIONS

“Luqiao Urban Construction”	Taizhou Luqiao District Urban Construction Group Co., Ltd.* (台州市路橋區城市建設集團有限公司), a limited liability company established in the PRC on 29 July 2013, and is ultimately owned as to 96.8% by the State-owned Assets Administration Commission of Luqiao District* (路橋區國有資產管理委員會) and 3.2% by Zhejiang Provincial Department of Finance (浙江省財政廳) as at the date of this annual report
“Luqiao Water Supply”	Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司), a limited liability company established in the PRC on 7 March 2000, and is owned as to 45% by the Company, 49% by Luqiao Urban Construction and 6% by Taizhou Shengshui Equity Investment Partnership (Limited Partnership) as at the date of this annual report
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“Prospectus”	the prospectus of the Company dated 17 December 2019, issued in relation to the Initial Public Offering and the listing of H Shares on the Stock Exchange
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the 12-month period from 1 January 2021 to 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Share(s) and/or the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company



DEFINITIONS

“Taizhou City Water”	Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a limited liability company established in the PRC on 30 September 2003 and a subsidiary of our Company owned as to 82% by our Company and 18% by Wenling Water Supply as at the date of this annual report
“Taizhou South Bay Water Supply”	Taizhou South Bay Water Supply Co., Ltd.* (台州市南部灣區水務有限公司), a limited liability company established in the PRC on 13 March 2018 and a subsidiary of our Company owned as to 60% by our Company and 40% by Yuhuan Water Supply Group Co., Ltd.* (玉環市水務集團有限公司) as at the date of this annual report
“Taizhou Water Supply”	Taizhou Water Supply Co., Ltd.* (台州自來水有限公司), a limited liability company established in the PRC on 22 June 1989, and is owned as to 49% by Jiaojiang Urban Development, 45% by the Company and 6% by Taizhou Shengshui Equity Investment Partnership (Limited Partnership) as at the date of this annual report
“Wenling Water Supply”	Wenling Water Supply Co., Ltd.* (溫嶺市供水有限公司), a limited liability company established in the PRC on 20 November 2007, and is ultimately wholly-owned by the Finance Bureau of Wenling City (溫嶺市財政局) as at the date of this annual report
“Wenling Zeguo Water Supply”	Wenling Zeguo Water Supply Co., Ltd.* (溫嶺市澤國自來水有限公司), a limited liability company established in the PRC on 9 November 2006 and a wholly-owned subsidiary of our Company as at the date of this annual report
“Yuhuan Water Supply”	Yuhuan Water Supply Co., Ltd.* (玉環市自來水有限公司), a limited liability company established in the PRC on 12 May 1992, and is ultimately owned as to 90% by the Financial Bureau of Yuhuan City* (玉環市財政局) and 10% by Zhejiang Provincial Department of Finance as at the date of this annual report
“Zhuxi Reservoir Development”	Taizhou Zhuxi Reservoir Development Co., Ltd.* (台州市朱溪水庫開發有限公司), a limited liability company established in the PRC on 13 February 2015, and is owned as to 25% by the Company as at the date of this annual report
“%”	per cent

* For identification purposes only



FINANCIAL HIGHLIGHTS

As a listed company of integrated water supply, the Company has both the goals of profitability and public welfare. For the profitability, growth and the Group's management ability of the operations cared by the investors, the Group focuses 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 analyse the profitability and future trends so that the investors can better understand the Group's profitability and growth. The Group has chosen to make analysis and explanation of major assets and major current accounts, so that investors and stakeholders can better understand the Group's financial position and management's operation capabilities.

RESULTS

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue	520,279	483,796
Profit before tax	178,898	156,235
Income tax expense	43,907	40,006
Profit for the year	134,991	116,229
Profit and other comprehensive income for the year	134,991	116,229
Attributable to:		
Owners of the Company	120,310	103,069
Non-controlling interests	14,681	13,160
	134,991	116,229
Basic earnings per share ^(Note) (RMB)	0.60	0.52
Dividend per share (RMB)	0.17	0.17

Note: The calculation of the basic earnings per share amounts is based on the profit for the year for the Group attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

ASSETS AND LIABILITIES

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Total assets	4,855,907	3,503,056
Total liabilities	3,725,539	2,484,553
Total equity	1,130,368	1,018,503
Equity attributable to owners of the parent	923,174	835,634
Non-controlling interests	207,194	182,869
	1,130,368	1,018,503



CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the annual report of the Group for the year ended 31 December 2021.

The year 2021 is a crucial year for the innovation-driven development and reform deepening of the Group. With the support of all Shareholders and the leadership of the Board, the Group, based on the positioning of building up a regional first-class comprehensive development operator of water and environmental protection resources, upheld the concept of “focusing on environmental protection and energy saving, ensuring high-quality water supply and servicing everyone”, focusing on ensuring water supply, attaching importance on projects, expanding financing, promoting reform, strengthening team force, and coordinating the epidemic control and enterprise development. The Group overcame difficulties at all levels, deepened the reform to make further progress. It fully realised all operating indicators set by the Board, and achieved steady growth in operating performance, generally-stable safe water supply throughout the year, a great stride in key projects, full completion of water supply integration in urban area, obvious effect of industrial expansion, sound and powerful financing, and improved quality and efficiency of management, suggesting a good beginning of the “14th Five-Year Plan” of the Group.

RESULTS REVIEW

During the Reporting Period, the business results of the Group showed a steady growth. The revenue of the Group amounted to approximately RMB520.3 million, as compared with approximately RMB483.8 million for the prior year; the net profit for the year amounted to approximately RMB135.0 million, as compared with approximately RMB116.2 million for the prior year; basic earnings per Share was RMB0.60, as compared with RMB0.52 for the prior year. Considering the capital requirements for the Company's business development, the Board proposed to distribute a dividend of RMB0.17 per Share (tax inclusive) to Shareholders, to repay their long-term support to the Company.

PRINCIPAL BUSINESS OF WATER SUPPLY

During the Reporting Period, the Group persisted in the water supply operating policy of “safe, efficient and orderly” and took comprehensive measures including boosting at the source, coordinating peak supply and off-peak supply and strengthening operation and maintenance to maintain the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) under sound operation. Especially influenced by the drought and low-temperature freezing across winter and spring, the imbalance in respect of water source and water volume in the South Area of Taizhou became more prominent. In face of the severe situation, the Group maximised the ability of drawing, producing and supplying water, strengthened pipeline patrols and inspections, coordinated pipeline relocation and pipeline maintenance, and strengthened upstream and downstream water department scheduling. Throughout the year, all testing data of treated water met the national standards for drinking water quality and the indicators of Zhejiang Province for modern water treatment plants, which effectively guaranteed the water need in water supply areas.

While making best effort to ensure water supply, the Group adhered to the development concept of people's livelihood taking top priority and water control being essential. According to the planning idea of “moderately advanced, multi-measures and long-term integration”, the “Planning Scheme of Security Guarantee for Water Supply in Taizhou” has been prepared, and the capacity expansion of Hongjia Pumping Station, expansion of Taizhou Water Treatment Plant and other projects have been launched. The Group has gradually built up a high-standard water security system in the South Area of Taizhou.



CHAIRMAN'S STATEMENT

CONSTRUCTION OF PROJECTS

During the Reporting Period, two key projects, the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), remained at the stage of all-round construction. The Group targeted at the objective of water availability, firmly promoted project construction, further enhanced management of contract performance, attached great importance on epidemic control, effectively ensured the quality and safety of the project, made best effort to solve the difficulties and bottlenecks such as enforcement policies and blasting of water intake, and overfulfilled the annual investment plan. In particular, the raw water pipelines and water conveyance tunnels of the Taizhou Water Supply System (Phase III) had been substantially connected, and the equipment installation and complex building decoration of the water treatment plant in the East Zone had been completed. The water conveyance tunnels of the Taizhou Water Supply System (Phase IV) had been fully commissioned, and the main works of the water treatment plant in the South Bay Zone had been completed. As of 31 December 2021, the accumulative completed investment for Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) amounted to RMB2,399 million and RMB1,100 million, respectively, representing 80.11% and 80.58% of the total investment.

INDUSTRY EXPANSION

During the Reporting Period, the Group set up a dedicated task force established the working mechanism, timetable and tasks, striving to overcome difficulties and strongly promote the reform of integration of water supply. The Group made various discussions and negotiations with the governments of three districts and relevant units on the core terms of the acquisition to reach a consensus. Through the introduction of equity funds and execution of equity transfer agreements with shareholders of water supply companies

in the three districts, the Group substantially promoted the process of urban water supply integration. Taizhou Water Supply and Jiaobei Water Supply, and Luqiao Water Supply and Huangyan Water Supply smoothly completed the industrial and commercial change registration procedures prior to 30 September 2021 and 31 December 2021, respectively, marking the full completion of the integration-oriented merger and acquisition in urban water supply sector, the realisation of business expansion from a sole raw water supply to the whole industrial chain of urban water supply and the opening of a new chapter in Taizhou's water supply business.

While developing the principal business of water supply, the Group strived to plan the transformation towards the environmental industry and actively explored the layout of the environmental protection business, carrying out preliminary research work to further clarify the idea of transformation and development, laying the foundation for future implementation.

FINANCING

Based on the needs of its business development, the Group continued to build a diversified financing guarantee system to optimize the capital structure and reduce financial costs. The Group leveraged the financing functions of all its entities to strengthen cooperation with financial institutions, and focused on the fulfillment of credit terms and loan contracts to provide funding guarantees to the construction of projects. During the Reporting Period, the Group had new credit facilities of RMB830 million and new bank loans of RMB780 million. The Group broadened its overseas financing channels and launched the issuance of overseas bonds with a total amount not exceeding US\$200 million. Currently, the bond issue has obtained the registration certificate issued by the National Development and Reform Commission for the issuance of overseas bonds.



CHAIRMAN'S STATEMENT

CORPORATE MANAGEMENT AND CONTROL

The Group strengthens management to improve the effectiveness of its internal control. During the Reporting Period, the Group focused on optimization and improvement of human resources, further promoted optimization of the Group's organizational structure and formation, and allocated human resources in a rational manner. It conducted internal control audit and took effective measures to address issues identified. The Group comprehensively troubleshooted risk points of post integrity, and formulated risk prevention and control measures. The Group amended and improved administrative rules such as Administrative Rules for Notifiable Matters, Administrative Rules for Pursuing Responsibility for Illegal Operation and Investment, and Implementation Opinions on Building a General Supervision System, further promoting implementation of the rules and improving the supervision mechanism for the exercise of power, so as to continually build a favourable business operating environment. Aiming at optimizing internal production and operation management and meeting the demand for integration of water supply in the three districts, a "1+3+5" smart water system was built to promote digital transformation of the Group's management system. As of 31 December 2021, the construction of the cloud platform has been completed, and part of the business and financial management systems has been put into use. The Geographic Information System (GIS) has been launched in three units, and the production monitoring of the Internet of Things (IoT) intelligent control system and production management system has been put into use and began to take shape. At the same time, the Group is actively planning for multi-scenario comprehensive applications.

OUTLOOK

The year 2022 is a critical year for the Group to implement the 14th Five-Year Plan and start the transformation and development, and it is also a year for the two key projects to be completed for water availability.

The Group will, aiming to "ensure water supply, strengthen management, deepen integration, and promote development", keep abreast with the macro industrial policies and market landscape, focus on its main responsibility and principal business, and further enhance the foundation of water supply. It will concentrate its resources in putting the two key projects into operation, and enhance the management and control of subsidiaries. The Group will improve its internal governance capacity, continue to promote the construction of smart water system and maintain efficient and safe operation. In the meantime, it will propel expansion towards the environmental protection industry, seek new profit growth points, and work together to ride on the momentum, thus promoting its quality development and bringing sustainable returns to Shareholders.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all Shareholders and partners for the long-term trust and support they have given to the development of the Company, and to all the members of the Company for their efforts and contributions.

Mr. Yang Jun

Chairman

Taizhou, the PRC

28 March 2022



MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY OVERVIEW

2021 was the year in which the prevention and control of the novel coronavirus epidemic entered into normalization. Affected by the epidemic, the water industry will face a surge in short-term disinfection demand and a sustained long-term industry improvement in quality. Short-term residential water demand and medical disinfection water demand will usher in a small increase. Sewage treatment enterprises will face severe challenges. The Ministry of Ecology and Environment proposed “medical sewage discharge without disinfection treatment or the treatment which does not meet the criteria is strictly prohibited (嚴禁未經消毒處理或處理未達標的醫療污水排放)” and “local ecological and environmental departments should urge urban sewage treatment plants to effectively strengthen the disinfection work (地方生態環境部門要督促城鎮污水處理廠切實加強消毒工作)” in the “Notice on Doing a Good Job in the Supervision of Medical Sewage and Urban Sewage in the Pneumonia Epidemic of Novel Coronavirus Infection (關於做好新型冠狀病毒感染的肺炎疫情醫療污水和城鎮污水監管工作的通知)” released on 1 February, which will, to a certain extent, increase the disposal costs of sewage enterprises.

In the long run, according to the results of the ecological environment quality test released by the Ministry of Ecology and Environment, the overall quality of surface water and drinking water sources in China remains stable, and the prevention and control work of sewage treatment has played a significant effect. After the epidemic, the four major trends of smart water construction, the improvement of urban sewage pipe network quality, the upgrade of water resources safety protection measures, and the construction of sludge harmless disposal facilities of China’s water industry will continue, and the government will also continue to increase policy and financial support for the development of the water industry, so the water industry is expected to usher in new development opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT STRATEGIES AND OUTLOOK

The year of 2021 marks the first year of implementing the 14th Five-Year Plan and embarking on a new journey to build China into a modern socialist country in all respects. Benchmarking the objective of building a pioneer city in pursuit of common prosperity with high-quality development, the Group resolutely implemented the decisions and deployments of the Municipal Party Committee and the Municipal Government to accelerate the progress of water conservancy infrastructure network construction, following closely the new development concept and the trend of water and environmental protection policies. The Group successfully completed the integration of water supply services this year. Through the acquisitions of equity interests in other water supply companies in Taizhou, the Group will enjoy the benefits of an expanded industrial chain and economic scale, and strengthen its position as a leading water supply service provider in Taizhou.

The Group will try to tap into the ecological environmental protection area to promote the development of green environmental protection business. The Group actively carries out cooperation and exchange with universities to explore the future layout of the Group's environmental protection business, promote cooperation among industrial, academic and research areas to achieve a win-win development for schools and enterprises. Meanwhile, due to the rapid advancement of telecommunication technology and the rapid construction of 5G network in the PRC, the Group will focus on the application of information technology in the water industry and promote the construction of the smart water platform. Development of major functions of business applications including GIS, production administration, dispatching management and business finance system is expected to be basically completed within this year.

BUSINESS REVIEW

As a leading water supply service provider in Taizhou, the Group's principal businesses are supply of raw water, municipal water and tap water, ranking the first in Taizhou in terms of raw water and municipal water supply. The Group also offers tap water directly to end-users and engages in the installation of water pipelines for distributing tap water to end-users.

The Group owns, operates and manages the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II). The designed raw water supply capacity is approximately 740,000 tonnes per day, and the municipal water supply capacity is 366,000 tonnes per day in the South Area of Taizhou. The Group has commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) in February 2018 and November 2018, respectively.

1. Raw Water Supply Project

The designed water supply capacity of Taizhou Water Supply System (Phase I) is 250,000 tonnes per day, and the raw water is supplied to local municipal water service providers and Wenling Zeguo Water Supply Co., Ltd. ("**Wenling Zeguo Water Supply**"), a wholly-owned subsidiary of the Company. The raw water supply capacity of Taizhou Water Supply System (Phase II) is 490,000 tonnes per day, of which 380,000 tonnes per day is supplied to Taizhou Water Treatment Plant of the Group. For the year ended 31 December 2021, the raw water sales volume was 117.7 million tonnes, representing an increase of approximately 7.8% as compared with 109.2 million tonnes for the year ended 31 December 2020.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Municipal Water Supply Project

Taizhou Water Treatment Plant of the Taizhou Water Supply System (Phase II) has a designed municipal water supply capacity of 366,000 tonnes per day and is responsible for selling municipal water to local municipal water service providers. For the year ended 31 December 2021, municipal water sales volume was 139.2 million tonnes, representing an increase of approximately 2.7% as compared with 135.5 million tonnes for the year ended 31 December 2020.

3. Tap Water Supply Project

As at 31 December 2021, the Group was responsible for supplying tap water to end-users of Zeguo Town, Wenling City (including commercial users, government authorities, industrial users and residential households in Zenguo Town). For the year ended 31 December 2021, tap water sales volume was 11.1 million tonnes, representing an increase of approximately 7.8% as compared with 10.3 million tonnes for the year ended 31 December 2020.

4. Installation Services

In connection with tap water supply services, the Group undertakes water pipeline installation works to connect new end-users to the Group's pipeline network and charges an installation fee for such services. For the year ended 31 December 2021, revenue from installation services amounted to RMB14.3 million, representing an increase of approximately 13.5% as compared with RMB12.6 million for the year ended 31 December 2020.

5. Construction Project

Construction projects in progress of the Group are the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

The construction of the Taizhou Water Supply System (Phase III) commenced in February 2018 and is expected to complete in June 2022, aiming to supply water to the Taizhou Bay Economic Zone and to resolve the increasing water demand in the areas the Group have already supplied water to. The designed raw water supply capacity of Taizhou Water Supply System (Phase III) is 580,000 tonnes per day in the short term and 1,000,000 tonnes per day in the long term; and the designed municipal water supply capacity is 284,000 tonnes per day in the short term and 884,000 tonnes per day in the long term.

The construction of Taizhou Water Supply System (Phase IV) commenced in November 2018 and is expected to complete in June 2022, aiming to supply water to South Bay Zone of Taizhou and to provide raw water and municipal water at the same time. In the short term, the designed raw water supply capacity is 150,000 tonnes per day, and the designed municipal water supply capacity is 100,000 tonnes per day. In the long term, the designed raw water supply capacity is 300,000 tonnes per day, and the designed municipal supply water capacity is 200,000 tonnes per day.

As at 31 December 2021, all the water conveyance tunnels of the Taizhou Water Supply System (Phase III) had been fully commissioned, the construction of the main civil structure of the water treatment plant in the East Zone has topped off, the tendering process for the On-Emergency North-South Water Source Mutual Backup Project has completed, and construction of the Jiaojiang section has commenced. Sections 1 & 2 of the water conveyance tunnels of the Taizhou Water Supply System (Phase IV) had been fully commissioned.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

1.1 Revenue

Revenue of the Group increased by RMB36.5 million or 7.5%, from approximately RMB483.8 million for the year ended 31 December 2020 to approximately RMB520.3 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water increased by RMB11.2 million or 10.3%, from approximately RMB108.8 million for the year ended 31 December 2020 to approximately RMB120.0 million for the Reporting Period. Such increase was primarily attributable to the increase in the sales volume of raw water from 109.2 million tonnes for the year ended 31 December 2020 to 117.7 million tonnes for the Reporting Period due to the impact of the COVID-19 pandemic in 2020.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water increased by RMB20.3 million or 6.4%, from approximately RMB318.7 million for the year ended 31 December 2020 to approximately RMB339.0 million for the Reporting Period. The increase was mainly due to (i) the increase in municipal water sales volume from 135.5 million tonnes in 2020 to 139.2 million tonnes in 2021; and (ii) the increase in the average unit selling price of raw water sold by the Group during the Reporting Period, mainly due to the 10% reduction of the price of raw water sold by the Group to middle and downstream water supply companies based on the actual volume of water sold by such companies to enterprise end-users due to the impact of the COVID-19 pandemic in 2020.

(3) Tap water supply

Revenue of the Group generated from sales of tap water increased by RMB3.3 million or 7.6%, from approximately RMB43.7 million for the year ended 31 December 2020 to approximately RMB47.0 million for the Reporting Period.



MANAGEMENT DISCUSSION AND ANALYSIS

- (4) **Installation services**
Revenue of the Group generated from installation services increased by RMB1.7 million or 13.5%, from approximately RMB12.6 million for the year ended 31 December 2020 to approximately RMB14.3 million for the Reporting Period.

1.2 Cost of sales

The Group's cost of sales increased by RMB14.1 million or 5.0%, from approximately RMB279.6 million for the year ended 31 December 2020 to approximately RMB293.7 million for the Reporting Period. The increase was mainly due to the increase in the raw water procurement fee, primarily attributable to the increase in raw water procurement volume.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit increased by RMB22.4 million or 11.0%, from approximately RMB204.2 million for the year ended 31 December 2020 to approximately RMB226.6 million for the Reporting Period. Gross profit margin increased slightly from 42.2% for the year ended 31 December 2020 to 43.6% for the Reporting Period.

1.4 Other income and gains

Other income and gains increased by RMB5.7 million or 34.3%, from approximately RMB16.6 million for the year ended 31 December 2020 to RMB22.3 million for the Reporting Period, which was mainly due to the gains on acquisition of associates in 2021.

1.5 Administrative expenses

Administrative expenses increased by RMB5.6 million or 11.1%, from approximately RMB50.3 million for the year ended 31 December 2020 to approximately RMB55.9 million for the Reporting Period, which was mainly due to the increase in employee benefit expenses.

1.6 Finance costs

Finance costs increased slightly by RMB0.6 million or 4.5%, from approximately RMB13.3 million for the year ended 31 December 2020 to approximately RMB13.9 million for the Reporting Period.

1.7 Income tax expense

Income tax expense increased by RMB3.9 million or 9.8%, from approximately RMB40.0 million for the year ended 31 December 2020 to approximately RMB43.9 million for the Reporting Period, which was primarily due to the increase in profit before tax.

1.8 Profit after tax and profit margin after tax

As a result of above, profit for the Reporting Period increased by RMB18.8 million or 16.2%, from approximately RMB116.2 million for the year ended 31 December 2020 to RMB135.0 million for the Reporting Period. Profit margin after tax increased from 24.0% for the year ended 31 December 2020 to 25.9% for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

2 Analysis of Key Items of Consolidated Statement of Financial Position

2.1 **Property, plant and equipment**

As at 31 December 2020 and 2021, property, plant and equipment were approximately RMB2,545.2 million and RMB3,582.5 million, respectively, and mainly comprised construction in progress, water supply pipelines, buildings, machinery and equipment for water supply business. The increase was primarily attributable to the additions of construction in progress related to Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.2 **Investment in associates**

Investment in associates represented the investments in which the Group had a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence, which included Zhuxi Reservoir Development, Taizhou Water Supply, Jiaobei Water Supply, Luqiao Water Supply and Huangyan Water Supply. The increase in investment in associates as at 31 December 2021 was mainly due to (i) the acquisitions of equity interests in Taizhou Water Supply, Jiaobei Water Supply, Luqiao Water Supply and Huangyan Water Supply in 2021; and (ii) the acquisition of additional equity interests in Zhuxi Reservoir Development in 2021.

2.3 **Right-of-use assets**

As at 31 December 2020 and 2021, right-of-use assets were approximately RMB412.2 million and RMB395.2 million, respectively.

2.4 **Inventories**

As at 31 December 2020 and 2021, inventories were approximately RMB3.8 million and RMB4.9 million, respectively. Inventories mainly comprised raw materials including chemicals used in the water treatment process.

2.5 **Trade receivables**

As at 31 December 2020 and 2021, trade receivables were approximately RMB101.6 million and RMB100.4 million, respectively. Trade receivables are related to receivables from customers under the water supply business.

2.6 **Prepayments, other receivables and other assets**

As at 31 December 2020 and 2021, prepayments, other receivables and other assets were approximately RMB13.7 million and RMB23.6 million, respectively. Such increase was primarily attributable to the increase in contract assets arising from installation services.



MANAGEMENT DISCUSSION AND ANALYSIS

2.7 Trade payables

As at 31 December 2020 and 2021, trade payables were approximately RMB60.1 million and RMB61.7 million, respectively. Trade payables mainly comprised outstanding payments for raw water procurement and water resources fee.

2.8 Other payables and accruals

As at 31 December 2020 and 2021, other payables and accruals were approximately RMB343.2 million and RMB764.4 million, respectively. Such increase was primarily attributable to the increase in other payables for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.9 Deferred government grants

As at 31 December 2020 and 2021, deferred government grants were approximately RMB80.1 million and RMB106.9 million, respectively. The increase was mainly due to the receipt of government grants of RMB30.0 million in 2021 as installment from the People's Government of Yuhuan City to reduce the cost of tap water for end-users in the areas covered by Taizhou Water Supply System (Phase IV) in the future.

2.10 Liquidity and financial resources

The Group manages its capital to ensure that its entities will be able to operate on a going concern basis and maximises the return to the Shareholders through optimisation of the debt and equity balance. During the Reporting Period, the overall strategy of the Group remained unchanged. The capital structure of the Group consisted of net debt (including borrowings net of cash and cash equivalents which were mainly denominated in Renminbi) and total equity (including paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group was not subject to any externally imposed capital requirements.

As at 31 December 2021, cash and bank balance of the Group was approximately RMB190.7 million (as at 31 December 2020: approximately RMB230.4 million).

As at 31 December 2021, total borrowings of the Group were approximately RMB2,742.0 million (as at 31 December 2020: approximately RMB1,964.0 million) and included bank and other loans, with 70.90% of bank and other loans at floating rates.

As at 31 December 2021, gearing ratio of the Group (total debts divided by total equity as at the year end) was 242.6% (as at 31 December 2020: 192.8%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB778.0 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Significant Investments

For the year ended 31 December 2021, the Group did not hold any significant investment in equity interest in any other company (for the year ended 31 December 2020: nil).

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Acquisitions of Equity Interest in Taizhou Water Supply, Jiaobei Water Supply and Luqiao Water Supply

On 20 May 2021, the Company, Jiaojiang Urban Development, Taizhou Water Supply and Jiaobei Water Supply entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 45% equity interest in each of Taizhou Water Supply (the "**Taizhou Water Supply Acquisition**") and Jiaobei Water Supply (the "**Jiaobei Water Supply Acquisition**") at an aggregate consideration of RMB46.60 million, subject to adjustment.

MANAGEMENT DISCUSSION AND ANALYSIS

On 20 May 2021, the Company, Luqiao Urban Construction and Luqiao Water Supply entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 45% equity interest in Luqiao Water Supply at a consideration of RMB124.42 million, subject to adjustment (the **“Luqiao Water Supply Acquisition”**).

The Taizhou Water Supply Acquisition, Jiabei Water Supply Acquisition and Luqiao Water Supply Acquisition were approved by the Shareholders at the 2021 first extraordinary general meeting of the Company held on 15 July 2021. As at the date of this annual report, the aforementioned acquisitions have been completed.

The Acquisition of Equity Interest in Huangyan Water Supply

On 1 September 2021, the Company, Taizhou Huangyan Water Conservancy Development Group Co., Ltd. and Huangyan Water Supply entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 45% equity interest in Huangyan Water Supply at a consideration of RMB116.27 million, subject to adjustment (the **“Huangyan Water Supply Acquisition”**).

The Huangyan Water Supply Acquisition was approved by the Shareholders at the 2021 second extraordinary general meeting of the Company held on 27 October 2021. As at the date of this annual report, the Huangyan Water Supply Acquisition has been completed.

For further details of the Taizhou Water Supply Acquisition, Jiabei Water Supply Acquisition, Luqiao Water Supply Acquisition and Huangyan Water Supply Acquisition, please refer to the announcements of the Company dated 20 May 2021, 1 September 2021, 30 September 2021, 27 October 2021, 29 October 2021, 30 November 2021 and 31 December 2021 and the circulars of the Company dated 24 June 2021 and 30 September 2021.

The Acquisition of Equity Interest in Zhuxi Reservoir Development

On 15 July 2021, the Company, China Agricultural Development Key Construction Fund Co., Ltd. (中國農發重點建設基金有限公司) and Zhuxi Reservoir Development entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 9.375% equity interest in Zhuxi Reservoir Development at a consideration of RMB75.0 million (the **“Zhuxi Reservoir Development Acquisition”**).

As at the date of this annual report, the Zhuxi Reservoir Development Acquisition has been completed and the Company holds 25% equity interest in Zhuxi Reservoir Development.

For further details of the Zhuxi Reservoir Development Acquisition, please refer to the announcement of the Company dated 15 July 2021.

Save as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period (for the year ended 31 December 2020: nil).

Pledge of the Group’s Assets

During the Reporting Period, the bank borrowings of the Group amounted to RMB2,742.0 million (for the year ended 31 December 2020: RMB1,964.0 million), which were secured by the Group’s trade receivables, the right of charge on the future revenue generated by Taizhou Water Supply System (Phase I, Phase II, Phase III and Phase IV). Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.



MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk

The Group carries out business in the PRC and receives revenue and pays its costs and expenses in RMB. The Group had the unutilised listing proceeds in Hong Kong dollar and the distributed dividends in Hong Kong dollar. The Group recognised net foreign exchange loss of approximately RMB0.1 million during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies. The Group will continue to monitor foreign exchange movements to maximise the Group's cash values.

Contingent Liabilities

As at the end of the Reporting Period, the Group did not have any material contingent liability (as at 31 December 2020: nil).

Subsequent Events

The Capital Injection into Zhuxi Reservoir Development

On 21 January 2022, the shareholders of Zhuxi Reservoir Development resolved to increase the registered capital of Zhuxi Reservoir Development from RMB800.0 million to RMB950.0 million and that the shareholders of Zhuxi Reservoir Development shall each contribute to the capital injection (in sum of RMB 150.0 million) on a pro rata basis to their existing shareholding in Zhuxi Reservoir Development ("**Zhuxi Capital Injection**"). Upon completion of the Zhuxi Capital Injection, the Company's total capital contribution to Zhuxi Reservoir Development shall be increased from RMB200.0 million to RMB237.5 million and the Company's equity interest in Zhuxi Reservoir Development will remain unchanged at 25%.

As the Zhuxi Capital Injection and the Zhuxi Reservoir Development Acquisition were conducted within a 12-month period prior to and inclusive of the date of the Zhuxi Reservoir Development Acquisition, the Zhuxi Capital Injection and the Zhuxi Reservoir Development Acquisition shall be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Zhuxi Capital Injection in aggregate with the Zhuxi Reservoir Development Acquisition was more than 5% but all were less than 25%, the Zhuxi Capital Injection and the Zhuxi Reservoir Development Acquisition, in aggregate, constituted a discloseable transaction of the Company and was therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this annual report, the Zhuxi Capital Injection has yet been completed. It is expected that the Company's injection of additional capital in amount of RMB37.5 million in cash into Zhuxi Reservoir Development will be paid in full on or before 31 March 2022.

For further details of the Zhuxi Capital Injection, please refer to the announcements of the Company dated 21 January 2022 and 10 February 2022.

Save as disclosed above, as at the date of this annual report, the Group has no other significant events occurred after the Reporting Period which require additional disclosures or adjustments.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had 206 employees (as at 31 December 2020: 194). During the Reporting Period, employees benefit expense amounted to approximately RMB62.8 million (for the year ended 31 December 2020: RMB52.5 million). The employees of the Group are generally remunerated by way of fixed salary, and are also entitled to a performance based bonus, paid leave and various subsidies. During the Reporting Period, the Group did not experience any significant labour disputes causing any material impact on its normal business operations.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, Supervisors and senior management are set out as follows:

EXECUTIVE DIRECTORS

Mr. Yang Jun (楊俊), aged 51, is the executive Director and Chairman of our Company. He joined our Company in March 2020. Mr. Yang is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group.

Mr. Yang began his career at the Sanmen County Zhuao Agriculture Technology Station* (三門縣珠畝農技站) between August 1989 and March 1999, with his last position being the station master. He then served at the Agricultural and Economic Committee of Sanmen County* (三門縣農經委) from March 1999 to December 2001, with his last position being the deputy director. Mr. Yang has served at various government authorities, including: (i) deputy director of the Agricultural Department of Sanmen County* (三門縣農業局) from December 2001 to June 2002; (ii) deputy secretary of the party committee and mayor of Yanchi Town, Sanmen County (三門縣沿赤鄉) from June 2002 to April 2005; (iii) secretary of the party committee and chairman of the people's congress of Xiaoxiong Town, Sanmen County (三門縣小雄鎮) from April 2005 to April 2009; (iv) director and secretary of the party committee of the Construction Planning Bureau of Sanmen County* (三門縣建設規劃局) from May 2009 to April 2012; (v) director and secretary of the party committee of the Housing and Urban-Rural Development Planning Bureau of Sanmen County* (三門縣住房和城鄉建設規劃局) from April 2012 to September 2014; (vi) deputy director and party leader (黨組成員) of the Economic Cooperation Office of Taizhou Government* (台州市政府經濟合作辦公室) from September 2014 to March 2018; and (vii) deputy county governor and party leader of the People's Government of Tiantai Province* (天臺縣人民政府) from March 2018 to March 2020. Mr. Yang has been serving as (i) the party committee member (黨委委員) and party secretary (黨委書記) of the Company since March 2020; (ii) the chairman of board of directors of Taizhou Development Investment Co., Ltd.* (台州市發展投資有限公司) since 23 April 2020; (iii) the chairman of board of directors of the Company since 5 June 2020; (iv) a director

of Taizhou South Bay Water Supply since 11 June 2020; and (v) a director of Binhai Water since 12 June 2020.

Mr. Yang completed the college degree course of the Correspondence Academy of Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) (the "Correspondence Academy") and obtained the graduation certificate in June 1996, majoring in economic management. He further completed the undergraduate course of administrative management of Correspondence Academy and the postgraduate course of public administration of the School of Politics and International Relations of Beijing Normal University* (北京師範大學政治學與國際關係學院) and obtained the graduation certificates in December 2004 and June 2013, respectively.

Mr. Zhang Junzhou (章君周), aged 59, is the executive Director and vice Chairman of our Company. He joined our Company in December 2014. Mr. Zhang is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group.

Mr. Zhang has over 28 years of experience in corporate and business management. From August 1980 to August 1983 and from August 1985 to August 1987, Mr. Zhang worked as a mathematics teacher of Linhai City Baishuiyang Middle School* (臨海市白水洋中學) (formerly known as Linhai City Shuanggang District Middle School* (臨海市雙港區中學)). He then served as a teacher at Linhai Normal School* (臨海師範學校) from July 1989 to April 1993. Mr. Zhang became the office director of Linhai Normal School in April 1993 and subsequently served as the deputy dean of Linhai Normal School from March 1997 to October 2000. From November 2000 to September 2002, Mr. Zhang worked at Taizhou College* (台州學院). Mr. Zhang then served as a member of the leading party members' group of Taizhou Culture and Sports Bureau* (台州市文化體育局) from September 2002 to April 2004. Mr. Zhang has also served as the deputy general director of the Taizhou teachers schools relocation leading group construction headquarter* (台州師專搬遷領導小組工程建設指揮部) in June 1998; and the executive deputy general director of the Taizhou sports



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

center construction leading group construction headquarter* (台州市體育中心工程建設領導小組建設指揮部) in October 1999, where he was responsible for management of construction projects. Later from April 2004 to June 2014, Mr. Zhang served as a deputy general manager of Taizhou Social Development Investment Company Limited and was responsible for the company's operation and management of construction projects. From June 2014 to December 2014, Mr. Zhang worked as the associate consultant of Taizhou People's Government Office. Mr. Zhang joined our Company in December 2014, and was subsequently appointed as our Director and vice Chairman in April 2015. Mr. Zhang has held various positions at the Group since April 2015, including: (i) general manager of the Company from April 2015 to January 2022; (ii) director of Binhai Water from June 2016 to January 2022 (in which, he served as the chairman and general manager from May 2017 to January 2022); and (iii) chairman and general manager of Taizhou South Bay Water Supply from March 2018 to January 2022.

Mr. Zhang graduated from Zhejiang Education College* (浙江教育學院) (currently known as Zhejiang International Studies University (浙江外國語學院)) in June 1989, majoring in education management. He completed the master's course at Zhejiang Normal University (浙江師範大學) in February 2001, majoring in educational economy and management. Mr. Zhang was qualified to lecture at secondary professional schools in November 1993.

Mr. Zhang has tendered his resignation as the vice Chairman and executive Director on 25 January 2022. The resignation will take effect from the date of the AGM to approve the appointment of Mr. Pan Gang as an executive Director. For further details, please refer to the announcement of the Company dated 25 January 2022.

NON-EXECUTIVE DIRECTORS

Mr. Wang Haibo (王海波), aged 59, is the non-executive Director of our Company. He joined our Company as a Director in June 2019. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Wang has over 21 years of experience in corporate management. From August 1984 to July 1989, Mr. Wang served as a teacher in Zhejiang Dianda Yuhuan Workstation* (浙江廣播電視大學玉環工作站) (currently known as the Yuhuan College, Zhejiang Open University* (浙江廣播電視大學玉環學院)). From August 1989 to March 1999, he served as the officer of the adult education department and subsequently the officer, the section chief of the human resources department and the member of leading party member's group of Yuhuan County Education Commission* (玉環縣教委). Mr. Wang has held various positions at Taizhou Urban Construction Investment Development Group Co., Ltd.* (台州市城市建設投資發展集團有限公司) (the "**Taizhou Urban Construction**") since June 1999, including: (i) deputy office director from June 1999 to August 2001; (ii) office director from August 2001 to August 2003; (iii) manager of the project management department from August 2003 to September 2006, responsible for investment management of the company and its affiliates; (iv) member of the leading party members' group and the leader of discipline inspection team from September 2006 to August 2011; (v) deputy general manager and a member of the leading party members' group from August 2011 to April 2019, responsible for management of party affairs, administrative and human resources of the company; and (vi) first-level senior manager since April 2019, responsible for management and coordination of directors and supervisors assigned by the company to its affiliates. Mr. Wang served as the supervisor of Taizhou Water Resources Investment Development Co., Ltd. since January 2017. He served as the director of Zhejiang Taizhou Expressway Group Co., Ltd. (浙江台州高速公路集團股份有限公司) since August 2019.

Mr. Wang obtained a bachelor's degree of science, majoring in physics, from Zhejiang Normal University (浙江師範大學) in July 1984.

Mr. Wang Haiping (王海平), aged 60, is the non-executive Director of our Company. He joined our Company as a Director in July 2002. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang has over 40 years of experience in finance and business management. From August 1981 to September 2001, Mr. Wang held various positions in Zhejiang Vacuum Equipment Group Co., Ltd. (浙江真空設備集團有限公司), including: (i) accounting staff and subsequently an accounting manager from August 1981 to April 1992; (ii) deputy section chief of finance section from April 1992 to June 1994; (iii) head of finance department from June 1994 to August 1997; (iv) assistant general manager, head of finance department and subsequently the senior accountant from August 1997 to September 2001. Mr. Wang joined Taizhou Urban Construction as a deputy general manager of the planning and finance department in September 2001, and subsequently served as: (i) planning and finance department manager between August 2003 and August 2013; (ii) the chief accountant since September 2013; and (iii) director of Zhejiang Taizhou Expressway Group Co., Ltd. since February 2018.

Mr. Wang completed a distance-learning diploma course, majoring in public administration, at Zhejiang University in June 2004. He also completed the master's course at the Graduate School of Academy of Fiscal Sciences, Ministry of Finance* (財政部財政科學研究所研究生部) in January 2014. Mr. Wang was accredited as a senior accountant by Zhejiang Provincial Department of Finance (浙江省財政廳) and Personnel Department of Zhejiang Province (浙江省人事廳) in October 1999. He obtained the Certificate of Qualification for CFO Enterprise Management Post of PRC in January 2008.

Ms. Fang Ya (方亞), aged 39, is the non-executive Director of our Company. She joined our Company as a Director in April 2015. Ms. Fang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Fang has over 13 years of experience in community works management and coordination. Ms. Fang was employed by Taizhou Yadong Cement Manufacturing Co., Ltd.* (台州市亞東水泥製造有限公司) (currently known as Taizhou Shangfeng Cement Co., Ltd.* (台州上峰水泥有限公司)) from April 2008 to June 2011 and was responsible for office administrative works. During the period from July 2011 to November 2012, Ms. Fang was appointed as a village

official of Zhangan Street Office* (章安街道辦事處) and was responsible for assisting the village secretary in handling day-to-day works. Since December 2012, Ms. Fang has been an officer at Huangyan District Budgeting Center* (黃岩區財政預算編製中心) and is responsible for handling day-to-day works of the economic development section.

Ms. Fang obtained a bachelor's degree of management, majoring in engineering management, from Northeast Agricultural University (東北農業大學) in June 2007. She was qualified as a social worker in the PRC in June 2018.

Mr. Yu Yangbin (余陽斌), aged 36, is the non-executive Director of our Company. He joined our Company as a Director in January 2019. Mr. Yu is primarily responsible for providing professional advice and judgment to the Board.

Mr. Yu worked as a teacher at Linhai Senior Vocational Middle School* (臨海市高級職業中學) from August 2009 to August 2017. Since September 2017, Mr. Yu has been an officer at the economy development section of Jiaojiang Finance Bureau, responsible for management of infrastructure investment and land transfer payment settlement works.

Mr. Yu obtained a bachelor's degree of engineering, majoring in civil engineering, from Zhejiang Sci-tech University (浙江理工大學) in June 2009. He received the secondary school teaching qualification, the secondary architect qualification and the intermediate architectural economist qualification in the PRC in October 2011, November 2013 and November 2018, respectively.

Ms. Huang Yuyan (黃玉燕), aged 49, is the non-executive Director of our Company. She joined our Company as a Director in March 2017. Ms. Huang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Huang has over 30 years of experience in financial management. She served as an officer at Taizhou Luqiao District Market Supervision Administrative Bureau* (台州市路橋區市場監督管理局) from August 1991 to July 2016. Since July 2016, Ms. Huang has been the deputy general manager of Taizhou Luqiao Public Assets and is responsible for financial management.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Huang graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) in December 1998, majoring in economics. She was accredited as a senior accountant by the Human Resources and Social Security Department of Zhejiang Province* (浙江省人力資源和社會保障廳) in April 2010.

Mr. Yang Yide (楊義德), aged 74, is the non-executive Director of our Company. He joined our Company as a Director in March 2011. Mr. Yang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Yang has over 24 years of experience in corporate governance. He served as the legal representative of (i) Wenling Zhijiang Property Management Co., Ltd.* (溫嶺市之江物業管理有限公司) from May 1997 to May 1999; (ii) Wenling Culture Development Co., Ltd.* (溫嶺市文化發展有限公司) from October 1997 to February 2004; (iii) Yunnan Tianyuan Mining Co., Ltd.* (雲南天源礦業有限公司) from August 2006 to March 2010; and (iv) Wenling Zhijiang Boutique Commercial Building Co., Ltd.* (溫嶺市之江精品商廈有限公司) from May 1999 to July 2002.

Mr. Yang has also served as director of other companies, including: (i) chairman of the board of directors of Kunming Zhijiang Real Estate Co., Ltd.* (昆明市之江置業有限公司) from June 2003 to October 2009; (ii) executive director and general manager of Qufeng Holdings Limited since August 2010; (iii) director of Taizhou Development Investment Co., Ltd. from August 2017 to September 2018; and (iv) the vice chairman of Yunnan Chuangzhixin Environmental Technology Co., Ltd.* (雲南創之新環保科技有限公司) since December 2021.

Mr. Yang served as a supervisor of (i) Kunming Chenzhan Trading Co., Ltd.* (昆明晨展商貿有限公司) from September 2011 to March 2017; (ii) Wenling Xinzhan Investment Consulting Co., Ltd.* (溫嶺市新展投資諮詢有限公司) since November 2011; and (iii) Wenling Chenhang Investment Consulting Co., Ltd.* (溫嶺市晨航投資諮詢有限公司) since November 2011.

Mr. Guo Dingwen (郭定文), aged 59, is the non-executive Director of our Company. He joined our Company as a Director in October 2018. Mr. Guo is primarily responsible for providing professional advice and judgment to the Board.

Mr. Guo has over 17 years of experience in financial management. He was appointed as the director and deputy general manager (finance department) of Kunming Zhijiang Real Estate Co., Ltd. from November 2004 to April 2018, responsible for finance management of the department. He served as a director of Kunming Zhijiang Real Estate Co., Ltd. from May 2018 to May 2021. Since May 2020, he has been working in the Finance Department of Wenling Hongzhi Labour Dispatching Co., Ltd.* (溫嶺市宏志勞務派遣有限公司).

Mr. Guo graduated from Hubei Engineering College* (湖北工學院) (currently known as Hubei University of Technology (湖北工業大學)) in July 2003, majoring in economics and management. He was accredited as an accountant by the MOF in October 1994.

Mr. Lin Yang (林楊), aged 40, is the non-executive Director of the Company. He was appointed as the non-executive Director of our Company on 27 October 2021. Mr. Lin is primarily responsible for providing professional advice and judgment to the Board. Mr. Lin is currently the general manager and party branch member (黨支部委員) of Zhejiang Taixin Asset Management Co., Ltd.* (浙江台信資產管理有限公司) ("**Zhejiang Taixin Asset**"), a substantial shareholder of the Company. He has been serving at Zhejiang Taixin Asset since September 2003 and has previously served as the deputy general manager and asset management department manager. Since November 2018, Mr. Lin has also been a director of Taizhou Development Investment Co., Ltd.* (台州市發展投資有限公司). Mr. Lin obtained a double degree in laws and economics from Zhongnan University of Economics and Law in June 2003, and was accredited as an intermediate economist by the Taizhou Personnel Bureau* (台州市人事局) in January 2011.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Chun (黃純), aged 38, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director of our Company on 27 October 2021. Mr. Huang is primarily responsible for providing objective and independent opinion on matters decided by the Board.

Mr. Huang has been working at Zhejiang University of Finance and Economics since March 2012 and is currently an associate professor at the school of business administration. He has also served at various governmental and academic institutions, including (i) industrial transformation and upgrading expert of Wenling City Economic and Information Bureau* (溫嶺市經濟和信息化局) from May 2017 to April 2020; (ii) distinguished external tutor of Guizhou University of Finance and Economics from September 2017 to September 2020; (iii) distinguished consultant of Guiyang Development and Reform Commission (貴陽市發展和改革委員會) from November 2017 to November 2020; (iv) distinguished professor of Zunyi Normal University from November 2017 to November 2020; (v) expert consultant of Jinhua Oriental Tax Agent Co., Ltd.* (金華東方稅務師事務所有限公司) since September 2019; and (vi) part-time professor of Zhejiang Dongfang Polytechnic (浙江東方職業技術學院) since December 2019.

Mr. Huang obtained a bachelor's degree in information management and information system from Ningbo University in 2005. He further obtained a master's degree in corporate management from Guizhou University in 2008 and a PhD degree in corporate management from Zhejiang University in 2012. Mr. Huang was named as a Zhijiang Young Social Scientist (之江青年社科學者) by the Zhejiang Provincial Federation of Social Sciences* (浙江省社會科學界聯合會) in March 2021.

Ms. Lin Suyan (林素燕), aged 48, is an independent non-executive Director of our Company. She was appointed as a Director in May 2018. Ms. Lin is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Lin has been a teacher at Zhejiang University of Technology (浙江工業大學) since April 2003. She was the head of financial management faculty of the School of Economics and Management of Zhejiang University of Technology from December 2013 to January 2016 and has been the executive head of the master of professional accounting (MPACC) project center of Zhejiang University of Technology from April 2018 to July 2020. Ms. Lin has served as (i) the deputy head of Department of Accounting of School of Management of Zhejiang University of Technology since July 2020; (ii) the deputy head of the master of professional accounting (MPACC) project center of Zhejiang University of Technology since November 2020; and (iii) an independent director of Hangzhou Xinghua Reflective Material Co., Ltd.* (杭州星華反光材料有限公司) since September 2021.

Ms. Lin received a doctor of philosophy degree of economics, majoring in international trade, from Zhejiang University of Technology in June 2018. She was appointed as an associate professor by Zhejiang University of Technology in December 2014.

Ms. Hou Meiwen (侯美文), aged 46, is an independent non-executive Director of our Company. She was appointed as a Director in October 2017. Ms. Hou is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Hou has over 21 years of experience and practice in legal and business operations. Ms. Hou worked as a paralegal and lawyer at Zhejiang Sunshine Law Firm* (浙江陽光時代律師事務所) between October 2000 and November 2003. She then became a partner at Zhejiang Saint Joint Law Firm (浙江聖約翰律師事務所) from December 2003 to September 2004. Ms. Hou worked as a lawyer at Grandall Law Firm (Hangzhou) (國浩律師(杭州)事務所) since October 2004 and is currently a partner.

Ms. Hou obtained a bachelor's degree of law from Hangzhou University* (杭州大學) in July 1998.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Yongyue (王永躍), aged 47, is an independent non-executive Director of our Company. He was appointed as a Director in May 2018. Mr. Wang is responsible for providing objective and independent opinion on matters decided by the Board.

Mr. Wang has been working as a teacher at Zhejiang Gongshang University (浙江工商大學) since May 2007 and has served as doctoral supervisor since January 2019.

Mr. Wang received a doctor of philosophy degree in education, majoring in psychology, from Zhejiang University in June 2005. He was appointed by Zhejiang Gongshang University as a professor in December 2016.

Mr. Li Wai Chung (李偉忠), aged 44, is an independent non-executive Director of our Company. He was appointed as a Director in June 2019. Mr. Li is responsible for providing objective and independent financial opinion on matters decided by the Board. Mr. Li is the Director who has the appropriate professional qualifications and related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules.

Mr. Li has extensive experience in accounting, corporate finance and finance management. Mr. Li has served as an independent non-executive director of Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) since June 2019. Mr. Li has served as an independent non-executive director of Fulu Holdings Limited, a company listed on the Stock Exchange (stock code: 2101), since 11 January 2020.

Mr. Li has served as an executive director and a chief financial officer of Taifeng Culture Holdings Limited (泰豐文化控股有限公司) since June 2020. He has also served as the general manager of Shenzhen Youxin Consulting Management Co., Ltd. (深圳友信顧問管理有限公司) from October 2017 to June 2020. From October 2017 to October 2018, he worked at Shanghai Yongxuan Venture Capital Management Co., Ltd. (上海永宣創業投資管理有限公司). From August 2016 to September 2017, he worked at Lens International (HK) Limited, the holding company of Lens Technology Co., Ltd (藍思科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code:

300433), as the general manager of investment department, mainly responsible for managing investment projects of the company and formulating investment strategies. From April 2006 to July 2016, he worked at Shanghai Prime Machinery Co., Ltd. (上海集優機械股份有限公司), a company previously listed on the Hong Kong Stock Exchange from April 2006 to January 2021 and currently a subsidiary of Shanghai Electric Group Company Limited, a company listed on the Hong Kong Stock Exchange (stock code: 2727), as the vice president, secretary of the board, assistant president, company secretary and qualified accountant. He was an audit manager of Deloitte China (including Deloitte Touche Tohmatsu CPA and Deloitte Touche Tohmatsu, Hong Kong) from October 2005 to April 2006.

Mr. Li obtained a bachelor's degree of business administration, majoring in accounting and finance, from the University of Hong Kong in November 2000 and received a master's degree of business administration from the University of Hong Kong in November 2013. Mr. Li is a fellow of the Association of Chartered Certified Accountants. He also obtained the membership of the Hong Kong Institute of Certified Public Accountants. and the chartered accountant qualification from the Institute of Chartered Accountants in England and Wales.

Save as disclosed above, each of our Directors has confirmed that he or she has not held any other directorships in listed companies during the three years immediately prior to the date of this annual report and that there is no other information in respect of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention to our Shareholders.

SUPERVISORS

Ms. Lin Ying (林穎), aged 44, joined our Company as an external Supervisor and the chairman of Supervisory Committee in October 2018. Ms. Lin is responsible for supervising the Board and senior management.

Ms. Lin worked at the finance department of Zhejiang Jimin Pharmaceutical Co., Ltd.* (浙江濟民製藥股份有限公司) from January 1998 to March 2006, and subsequently



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

served as the chief financial officer of Zhejiang Fengli Intelligent Technology Co., Ltd.* (浙江豐立智能科技股份有限公司) from April 2006 to December 2009. She then served as the chief financial officer of Taizhou Luqiao Public Assets from January 2010 to July 2016, and subsequently the head of planning and finance department of Taizhou Rail Transit Group Co., Ltd.* (台州市軌道交通集團有限公司) from August 2016 to September 2018. Ms. Lin has been the chairman of the supervisory committee of Taizhou State-owned Capital Operation Group Co., Ltd.* (台州市國有資本運營集團有限公司) and the chairman of supervisory committee of Taizhou Development Investment Co., Ltd.* (台州市發展投資有限公司) since October 2018 and April 2020, respectively.

Ms. Lin obtained a distance-learning diploma, majoring in business management, from Zhejiang University in February 2010. She was accredited as a registered tax agent and a senior accountant by the Human Resources and Social Security Department of Zhejiang Province in June 2012 and April 2016, respectively. She was admitted as a senior international finance manager by the International Financial Management Association in April 2015.

Ms. Lin has served as the chairman of supervisory committee of Taizhou Financial Investment Group Co., Ltd.* (台州市金融投資集團有限公司) since April 2019 and Taizhou Zhengtong Government Services Co., Ltd.* (台州政通政務服務有限公司) since December 2020. She has been the chairman of supervisory committee of Zhejiang Zhongjing Drone Co., Ltd.* (浙江中警無人機有限公司) and Zhejiang Chuxin Drone Technology Co., Ltd.* (浙江初心無人機科技有限公司) respectively since November 2021. She has served as the chairman of supervisory committee of Taizhou Guohong New Energy Investment Co., Ltd.* (台州國宏新能源投資有限責任公司) and Taizhou Talent Development Co., Ltd.* (台州市人才發展有限公司) respectively since December 2021.

Mr. Lu Huaping (盧華平), aged 38, joined our Company as an external Supervisor in July 2017. Mr. Lu is responsible for supervising the Board and senior management.

Mr. Lu worked in the personal insurance sales department of China Life Insurance Company Ltd., Taizhou Branch, from July 2008 to February 2011. He then worked at the interactive business department of China Life Property & Casualty Insurance Company Limited, Taizhou Centre Branch, from February 2011 to November 2013, responsible for insurance sales and management. He was employed by the investment department of Taizhou SAIG from November 2013 to May 2017. Mr. Lu served as an expatriate supervisor of Taizhou State-owned Capital Operation Group Co., Ltd.* from May 2017 to December 2021.

Mr. Lu obtained a bachelor's degree of administration, majoring in financial management, from Chongqing Engineering College* (重慶工學院) (currently known as Chongqing University of Technology (重慶理工大學)) in June 2008. He was accredited as a certified intermediate economist and a certified intermediate accountant by the Human Resources and Social Security Department of Taizhou in November 2013 and September 2016, respectively. He also obtained the independent director qualification certificate issued by the Shanghai Stock Exchange in January 2018. Mr. Lu was also accredited as a tax advisor by the China Certified Tax Agents Association in November 2018.

Mr. Lu tendered his resignation as the external Supervisor on 7 March 2022. The resignation will take effect from the date of the AGM to approve the appointment of Ms. He Lin as a shareholder representative supervisor. For further details, please refer to the announcement of the Company dated 7 March 2022.

Mr. Chen Guojun (陳國軍), aged 58, joined our Company in July 1997 and was appointed as the employee representative Supervisor in June 1999. Mr. Chen is responsible for supervising the Board and senior management.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen joined our Predecessor Company in July 1997 and worked at the infrastructure division till February 1998. From March 1998 to August 1998, he was a manager of the engineering department of water supply building branch office of our Predecessor Company. Upon the establishment of our Company, he has worked as: (i) station master of Huangyan pumping station from September 1998 to January 2001; (ii) manager of Zeguo branch office from February 2001 to January 2003; and (iii) manager of Yuanshui branch office from January 2003 to October 2010, responsible for the maintenance and management of pumping stations. Since October 2010, Mr. Chen has served as the chairman and general manager of Wenling Zeguo Water Supply.

Mr. Chen graduated from the Correspondence Academy of Party School of Zhejiang Provincial Committee of C.P.C (中共浙江省委黨校函授學院) in June 2003, majoring in administrative management.

Mr. Xu Junwei (徐軍偉), aged 46, joined the Company in August 1996 and was appointed as an employee representative Supervisor in March 2020. Mr. Xu is responsible for supervising the Board and the senior management. He completed the relevant civil engineering program of Zhejiang University of Technology (浙江工業大學) in June 2005 and further obtained a master degree in engineering, specializing in hydraulic engineering, from Hohai University (河海大學) in December 2015. He was also accredited as a hydraulic engineer by the Taizhou Personnel Bureau* (台州市人事局) and a municipal public works grade II instructor (市政公用工程二級建造師) by the Department of Housing and Urban-Rural Development of Zhejiang Province* (浙江省住房和城鄉建設廳) in December 2003 and September 2009, respectively.

Mr. Xu has over 25 years of experience in the water supply industry. He has: (i) served as a technician of the predecessor company of the Company from August 1996 to September 2000; (ii) served as an assistant manager of Zeguo branch of the Company from February 2001 to December 2002; (iii) served as a manager of the Zeguo branch of our predecessor company from January 2003 to December 2006; (iv) served as a manager of Wenling Zeguo Water Supply from January 2007 to August 2008; (v) worked at the engineering division of the Supervision Division of Taizhou Second Phase Water Supply Project (台州二期供水工程建設指揮部) from August 2008 to October 2010; and (vi) the manager of the raw water production department from October 2010 to November 2021. Mr. Xu has served as: (i) a director of Wenling Zeguo Water Supply Co., Ltd. since October 2014; (ii) the chief of engineering division and deputy chief engineer of Binhai Water since May 2020; (iii) the chief of engineering division and deputy chief engineer of Taizhou South Bay Water Supply since May 2020; (iv) the chairman of supervisory committee of Taizhou Zhuxi Reservoir Development Co., Ltd.* (台州市朱溪水庫開發有限公司) since May 2020; (v) the chairman of supervisory committee of Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a subsidiary of the Company, since June 2020; (vi) a director of Binhai Water since January 2022; and (vii) the head of operations preparation team of Binhai Water since November 2021.

Mr. Chen Tao (陳濤), aged 32, joined our Company as an external Supervisor in June 2020. Mr. Chen is responsible for supervising the Board and senior management.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen graduated with a bachelor's degree in management, specialising in accounting, from Shanghai University of Finance and Economics Zhejiang College* (上海財經大學浙江學院) in June 2012 and was accredited as an intermediate accountant by the Ministry of Human Resources and Social Security and the Ministry of Finance of the People's Republic of China in September 2017. Mr. Chen has served as: (i) an assistant accountant of Taizhou Hualian Supermarket Co., Ltd.* (台州華聯超市有限公司) from June 2012 to February 2013; (ii) an accountant of Taizhou Yuhui Business International Travel Agency Co., Ltd.* (台州御輝商務國際旅行社有限公司) from March 2013 to February 2016; (iii) an accountant of Benzhou Vehicle Industry Group Co., Ltd. (本州車業集團有限公司) from March 2016 to April 2017; (iv) a financial officer of Zhejiang Qiasigao Footwear Company Limited* (浙江卡斯高鞋業有限公司) from May 2017 to September 2018; (v) a supervisor of Taizhou Financial Investment Group Co., Ltd.* (台州市金融投資集團有限公司) from May 2019 to April 2020; (vi) a supervisor of Taizhou Social Development Group Co., Ltd.* (台州市社會事業發展集團有限公司) from January 2019 to May 2020; (vii) a supervisor of Taizhou Cultural Tourism Investment Development Co., Ltd.* (台州市文化旅遊投資發展有限公司) from January 2019 to March 2020. Mr. Chen also served as (i) a supervisor of Taizhou State-owned Capital Operation Group Co., Ltd.* (台州市國有資本運營集團有限公司) since September 2018, and (ii) a supervisor of Taizhou Development Investment Company* (台州市發展投資公司) since April 2020.

Since September 2021, Mr. Chen has served as a supervisor of Taizhou Water Supply and Jiaobei Water Supply respectively. Since December 2021, he has served as a supervisor of Luqiao Water Supply and Huangyan Water Supply.

SENIOR MANAGEMENT

Mr. Pan Gang (潘剛), aged 50, is the general manager of our Company. He joined our predecessor company in February 1994 and is primarily responsible for production and operation management of our Group.

From February 1994 to April 1996, Mr. Pan worked at the engineering technology department of the Huangjiaowen Joint Water Supply Engineering Headquarter* (黃椒溫聯合供水工程總指揮部) of the predecessor company of the Company. From April 1996 to February 2001, he first served as the director of the pumping station management center of the predecessor company and subsequently became the director of the control office of the Company in August 1999. From February 2001 to September 2010, Mr. Pan served as the manager of the corporate management department of the Company. From October 2005 to December 2008, he was responsible for the on-site management of the tap water section of the Taizhou Water Supply System (Phase II), and the trial operation management of Taizhou Water Treatment Plant. Mr. Pan has been serving as (i) the party committee member (黨委委員) of the Company since September 2010; (ii) the deputy general manager of the Company since March 2011; and (iii) the deputy party secretary (黨委副書記) of the Company since January 2022. Since June 2016, Mr. Pan has been the director of Binhai Water and was also the chairman of the board of directors of Binhai Water from June 2016 to May 2017 and the deputy general manager of Binhai Water since May 2017. Mr. Pan has also been the director of Taizhou South Bay Water Supply since March 2018 and the chairman of the board of directors of Huangyan Water Supply Co since December 2021.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Pan completed the college degree course of the Zhejiang Water Resources and Hydropower Junior College* (浙江水利水電專科學校) and obtained the graduation certificate in July 1992, majoring in water conservancy and hydropower engineering and construction. He further completed the undergraduate degree course of the Correspondence Academy of Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) and obtained the graduation certificate in December 1999, majoring in economic administration. Mr. Pan was accredited as an engineer by Taizhou Personnel Bureau in December 1999.

The Board has proposed to elect Mr. Pan as the executive Director of the Company for a term commencing from the date of the AGM until the expiration of the term of the fifth session of the Board, and if his appointment is approved by the Shareholders at the AGM, he will replace Mr. Zhang as vice Chairman and a member of each of the Remuneration Committee and the Strategy Committee. Mr. Pan has confirmed that he has no disagreement on such nomination. For further details, please refer to the announcement of the Company dated 25 January 2022.

Mr. Pan Huadong (潘華東), aged 46, is the deputy general manager of our Company. He joined our Company in April 2016 and is primarily responsible for project coordination and publicity of our Group.

Mr. Pan has over 25 years of experience in corporate governance. Mr. Pan served as the office secretary of the party committee, the deputy secretary and the secretary of the youth league committee of Yuanqiao Town, Huangyan District, Taizhou* (台州市黃岩區院橋鎮) from October 1996 to December 2001. From December 2001 to August 2008, Mr. Pan served as the member of party committee, the deputy secretary of the party committee and the commissioner for discipline inspection committee of Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮). From August 2008 to September 2011, he served as the township chief of People's Government of Yutou Township, Huangyan District, Taizhou* (台州市黃岩區嶼頭鄉人民政府). He then served as the town mayor of

Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮) from September 2011 to November 2014. From November 2014 to June 2016, he was the party secretary and bureau director of Taizhou Administration Administrative Law Enforcement Bureau, Huangyan Branch* (台州市城市管理行政執法局黃岩分局). Since June 2016, he has been the deputy general manager of our Company. Since September 2018, Mr. Pan has been the chairman of Taizhou Environmental Development. He also serves as a director of Binhai Water.

Mr. Pan graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C in December 2004, majoring in administrative management.

Mr. Bao Liwan (鮑立萬), aged 49, is the deputy general manager of the Company. He joined our Group in August 1996 and is primarily responsible for the management of water supply business of our Group.

Mr. Bao has over 24 years of experience in corporate governance. Mr. Bao joined our predecessor company in August 1996 and served at the production technology department till August 1999. He has held various positions at our Company, including: (i) director of the information processing center from August 1999 to February 2001; (ii) director of the information processing center of the corporate governance department from February 2001 to January 2003; and (iii) the chief engineer from January 2003 to July 2011. He served as a director of Taizhou South Bay Water Supply from March 2018 to August 2021. Since July 2011, Mr. Bao has been the chairman of the board of directors and the general manager of Taizhou City Water. Since April 2017, Mr. Bao has been the deputy general manager of our Company. Currently, he is also the director of our subsidiary, namely Binhai Water. Since December 2021, he has served as the chairman of Luqiao Water Supply.

Mr. Bao obtained a bachelor's degree of engineering, majoring in industrial automation education, from Zhejiang University of Technology in July 1996. He was accredited as a certified senior engineer by the Personnel Department of Zhejiang Province in December 2008.



BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zheng Ranhan (鄭然涵), aged 41, is the deputy general manager, chief accountant, secretary of the Board and joint company secretary of the Company. She joined our Company in August 2021. Ms. Zheng is primarily responsible for the financial affairs of the Group.

Ms. Zheng possesses rich experience in corporate governance and investment management. She has served as a director of the Company from September 2016 to March 2018, and a director of Taizhou Zhongjian Modern Avenue Investment and Construction Co., Ltd.* (台州中建現代大道投資建設有限公司) from September 2016 to March 2018 and the chairlady of Taizhou Science and Technology Development Co., Ltd.* (台州市科技發展股份有限公司) from December 2018 to October 2021. Prior to joining the Company, Ms. Zheng has served at (i) Zhejiang Taizhou Expressway Group Co., Ltd.* (浙江台州高速公路集團股份有限公司) from June 2000 to April 2016, with her last position being the office director (辦公室主任); and (ii) Taizhou City Construction Investment Development Group Co., Ltd.* (台州市城市建設投資發展集團有限公司) from April 2016 to August 2021, with her last position being the deputy general manager.

Ms. Zheng obtained a bachelor's degree in corporate management from Zhejiang University in June 2000 and passed the public accountant examination of Chinese Institute of Certified Public Accountants in July 2004. She was accredited as a senior economist by the Human Resources and Social Security Department of Zhejiang Province in December 2013.

Mr. Xu Hailong (徐海龍), aged 52, is the deputy general manager of our Company. He joined our Company in February 2019. Mr. Xu is primarily responsible for the management of water conservancy construction projects of our Group.

Mr. Xu has over 28 years of experience in corporate and business management. He worked at Tiantai County Employment Management Service Division* (天台縣就業管理服務處) from August 1993 to October 1997. Mr. Xu served as assistant to the mayor and subsequently the deputy mayor of the People's Government of Baita Town, Xianju County* (仙居縣白塔鎮人民政府) from October 1997 to November 2001, and the mayor of the People's Government of Guanlu Town, Xianju County* (仙居縣官路鎮人民政府) from November 2001 to July 2004. Mr. Xu was appointed by the Party Group of the Communist Party of China of Water Resources Bureau of Taizhou City* (中國共產黨台州市水利局黨組) as the political commissar of Taizhou Water Administration Supervision Team* (台州市水政監察支隊) and the head of Water Affairs and Water Resources Division of Taizhou Water Resources Bureau* (台州市水利局水政水資源處) from March 2004 to January 2005. From January 2005 to April 2017, he served as the division director at Taizhou River Management Division* (台州市河道管理處) and office deputy director at Taizhou People's Government Flood Control and Drought Control Headquarter* (台州市人民政府防汛防旱指揮部). From April 2017 to March 2019, Mr. Xu served as the deputy general manager of Taizhou Urban Construction. From February 2019 to June 2019, Mr. Xu served as the Director of our Company. He has been the deputy general manager of our Company since May 2019. He has been the chairman of Jiaobei Water Supply and Taizhou Water Supply since September 2021, respectively.

Mr. Xu obtained a bachelor's degree of agriculture, majoring in plants protection, from Zhejiang Agricultural University* (浙江農業大學) (currently known as the College of Agriculture and Biotechnology, Zhejiang University* (浙江大學農業與生物技術學院)) in July 1993.



REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended 31 December 2021.

PRINCIPAL BUSINESS

The Group is engaged in water supply business, including raw water supply, municipal water supply and tap water supply. We sell tap water directly to end-users including commercial users, government authorities, industrial users and residential households. We currently own and operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), which are two pivotal water supply systems in Taizhou and supply raw water and municipal water to the South Area of Taizhou. We have commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) which will provide both raw water and municipal water and are designed to cater for the potential growth in demand for water in the long term.

RESULTS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 74 of this annual report.

DIVIDENDS DISTRIBUTION

The Company has adopted in its general dividend policy a dividend payout ratio of no less than 30% of our annual distributable net profit as determined under PRC GAAP or HKFRSs (whichever is lower) for each of the three financial years after Listing (the “**Initial Period**”). After the Initial Period, pursuant to such general dividend policy, the Company will determine the dividend payout ratio with reference to the Group’s results of operations, cash flows, financial condition, operating and capital expenditure

requirements, distributable profits as determined under PRC GAAP or HKFRSs (whichever is lower) and other factors that the Directors may consider relevant. The Board may declare and pay dividends by way of cash or by other means that we consider appropriate. Distribution of dividends will be decided by the Board at their discretion and will be subject to the approval of the Shareholders. In addition, the dividend policy will also be subject to the Articles of Association, the PRC Company Law and any other applicable law and regulations. In any event, the Board will pay dividends out of profits after tax only after the following allocations have been made:

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

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

The Board has resolved to declare a final dividend of RMB0.17 per Share (tax inclusive) in cash for the year ended 31 December 2021. The proposed final dividend is subject



REPORT OF DIRECTORS

to the consideration and approval by the Shareholders at the forthcoming AGM. The final dividend is payable to the Shareholders whose names are listed in the register of members of the Company on Sunday, 10 July 2022, in an aggregate amount of approximately RMB34.0 million. The final dividend will be denominated and declared in RMB. The final dividend on Domestic Share will be paid in RMB and on H Share will be paid in HKD. The relevant exchange rate for conversion shall be calculated by the average closing rate for converting RMB into HKD of the five business days prior to the date on which the dividend is declared at the AGM (i.e. Tuesday, 28 June 2022) as quoted by the People's Bank of China. Once approved by the AGM, the final dividend is expected to be distributed on or before Friday, 23 September 2022.

According to the Enterprise Income Tax Law of the PRC and its implementation regulations (the “**EIT Law**”), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered under the name of non-individual enterprise, including the H Shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the EIT Law). The Company will distribute the dividend to those non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Company's H Share register, Computershare Hong Kong Investor Services Limited, in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa [1993] No. 045 Document (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (the “**Notice**”) issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and the PRC. Thus, 10% individual income tax will be withheld from the dividend payable to any individual shareholders of H Shares whose names appear on the H Share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.



REPORT OF DIRECTORS

TAX RELIEF

The Directors are not aware of any tax relief available to the Shareholders by reason of their holding of the Shares.

ANNUAL GENERAL MEETING

The AGM will be held on Tuesday, 28 June 2022. The notice of the AGM will be published and dispatched to the Shareholders in due course in the manner as required by the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

1. For determining the entitlement to attend and vote at the AGM

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Sunday, 29 May 2022 to Tuesday, 28 June 2022, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for attending the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 27 May 2022.

2. For determining the entitlement to the proposed final dividend

For determining the entitlement to the proposed final dividend subject to the approval by Shareholders at the AGM, the register of members of the Company will be closed from Tuesday, 5 July 2022 to Sunday, 10 July 2022, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for receiving the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 July 2022.

BUSINESS REVIEW

A fair review of the business and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Group's business are provided in the "Management Discussion and Analysis" on pages 12 to 20 of this annual report. Description of the principal risks and uncertainties faced the Group can be found on pages 139 to 143 of this annual report. Particulars of important events affecting the Group that have occurred after 31 December 2021, if any, can also be found in the notes to the Consolidated Financial Statements.

In addition, more details regarding the Group's performance by reference to financial key performance indicators and environmental policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in this section and the "Five-Year Financial Summary" of this annual report. Each of the above-mentioned relevant contents form an integral part of this Report of Directors.



REPORT OF DIRECTORS

HIGH RISK FACTORS

The construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) is expected to complete in June 2022. During the construction period, delay in the construction works may occur due to factors beyond our control such as defaults of contractors, natural disasters, environmental hazards and industrial accidents, which will result in the delay in the completion of the construction and commencing time of operation of these two projects. Meanwhile, as the investment costs for these two projects are relatively high, the Group may incur additional costs and expenses due to the delay in construction. As at 31 December 2021, epidemic of the year had no adverse effect on the projects under construction of the Company. We will further adopt measures to strengthen project management, especially the construction quality and safety management, procure the contractors to perform their contractual obligations to ensure a smooth project construction.

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last five financial years are set out on page 146 of this annual report. Such summary does not form part of the audited consolidated financial statements.

ENVIRONMENTAL POLICY

The Group is subject to certain environmental risks and may generate solid waste during its daily operations. During the construction of projects, the Group may be subject to environmental risks of water pollution, air pollution, noise pollution, and also land run-off. During daily operations and construction process of projects, the Group complies with various PRC environmental laws and regulations, including the Environmental Protection Law of the PRC, the Water Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution. In addition, the Group has been pursuing a sustainable environmental approach and considering expansion of social and economic responsibilities it bears.

During the Reporting Period, the Group did not have any material environment-related incident, and had not been penalised or subject to investigation by competent government authority for environment-related violations.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries during the Reporting Period.

RELATIONSHIP WITH STAKEHOLDERS

Employees

As at the date of this annual report, we had a total of 206 employees. All of our employees are based in the PRC. Our employees are generally remunerated by way of fixed salary. The Group utilises an appraisal system for our employees and considers the appraisal results of individual employees in conducting their salary reviews, making promotion decisions and determining the amount of bonuses. We also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

The Group recruits employees based on a number of factors such as their working experience, educational background and vacancy needs. In order to increase the overall competitiveness of our workforce and to attract and retain existing employees and strengthen their knowledge, skill level and quality, the Group places strong emphasis on the training of its employees. We provide trainings across different operational functions, including induction training for new employees, technical training, and training to enhance the employees' knowledge in safety measures when performing their duties.



REPORT OF DIRECTORS

We believe that our management policies, working environment, employee development opportunities and employee benefits have together contributed to good employer-employee relations and successful employee retention.

Customers

Our customers are mainly local municipal water service providers who, to our knowledge, sell the municipal water purchased from us to other municipal water service providers or end-users.

Among our customers, Wenling Water Supply, Yuhuan Water Supply, Huangyan Water Supply and Luqiao Water Supply are our connected persons under the Listing Rules. Details of our relationship with these customers are disclosed under the section headed “Connected Transactions” in this annual report.

For the year ended 31 December 2021, the Group’s sales to its five largest customers accounted for 88.9% (2020: 89.0%) of the Group’s total sales and sales to the largest customer accounted for 29.6% (2020: 28.4%).

Suppliers

All our suppliers are located in the PRC. Our suppliers (excluding suppliers of the discontinued operations of the Group) can be generally classified as construction-related suppliers and non-construction related suppliers.

Construction-related suppliers primarily are contractors, design and engineering companies we engage for the construction of the water supply infrastructure. Some of them are equipment and facility suppliers. We select these suppliers through public tenders.

One of our major non-construction related suppliers is Changtan Reservoir Affairs Centre as all our water is drawn from Changtan Reservoir and we have to pay to Changtan Reservoir Affairs Centre a raw water procurement fee fixed by the local pricing authorities. Other non-construction related suppliers include electricity companies, chemical companies, parts and components and equipment manufacturers.

For the year ended 31 December 2021, purchases from the Group’s five largest non-construction related suppliers accounted for 86.6% (2020: 88.4%) of the Group’s total non-construction related purchases and purchases from the largest non-construction related supplier accounted for 28.1% (2020: 69.8%). For the year ended 31 December 2021, purchases from the Group’s five largest construction-related suppliers amounted to approximately RMB448.2 million (2020: RMB402.4 million).

Save as disclosed in this annual report, during the Reporting Period, none of the Directors or the Supervisors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors and Supervisors, own more than 5% of the number of issued Shares of the Company) had any interest in the Company’s five largest customers and suppliers.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements.

As at 31 December 2021, the issued share capital of the Company was 200,000,000 Shares (of which 150,000,000 were Domestic Shares and 50,000,000 were H Shares).



REPORT OF DIRECTORS

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2021 are set out on page 77 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

Pursuant to the relevant laws and regulations, as at 31 December 2021, the Company has distributable profit of RMB112.8 million (2020: RMB97.2 million), of which RMB34.0 million has been proposed as final dividend payment for the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at 31 December 2021 are set out in note 23 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 13 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report and based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the PRC that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.



REPORT OF DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management of the Company during the year ended 31 December 2021 and up to the date of this annual report are set out below:

Name	Position in the Company	Appointment date of current term
Directors		
Mr. Yang Jun	Chairman and executive Director	June 2020
Mr. Zhang Junzhou ⁽¹⁾	Vice Chairman, executive Director and general manager	May 2018
Mr. Wang Haibo	Non-executive Director	June 2019
Mr. Wang Haiping	Non-executive Director	May 2018
Ms. Fang Ya	Non-executive Director	May 2018
Mr. Yu Yangbin	Non-executive Director	January 2019
Ms. Huang Yuyan	Non-executive Director	May 2018
Mr. Yang Yide	Non-executive Director	May 2018
Mr. Guo Dingwen	Non-executive Director	October 2018
Mr. Lin Yang ⁽²⁾	Non-executive Director	October 2021
Mr. Sun Hua ⁽³⁾	Non-executive Director	June 2020
Mr. Huang Chun ⁽⁴⁾	Independent non-executive Director	October 2021
Ms. Lin Suyan	Independent non-executive Director	May 2018
Ms. Hou Meiwen	Independent non-executive Director	May 2018
Mr. Li Wai Chung	Independent non-executive Director	June 2019
Mr. Wang Yongyue	Independent non-executive Director	May 2018
Mr. Zheng Jianzhuang ⁽⁵⁾	Independent non-executive Director	May 2018
Supervisors		
Ms. Lin Ying	Chairman of Supervisory Committee and external Supervisor	October 2018
Mr. Lu Huaping	External Supervisor	May 2018
Mr. Chen Guojun	Employee representative Supervisor	May 2018
Mr. Chen Tao	External Supervisor	June 2020
Mr. Xu Junwei	Employee representative Supervisor	March 2020
Senior management		
Mr. Pan Gang ⁽⁶⁾	General manager	January 2022
Mr. Pan Huadong	Deputy general manager	May 2018
Mr. Bao Liwan	Deputy general manager	May 2018
Mr. Zheng Ranhan ⁽⁷⁾	Deputy general manager, chief accountant, Board secretary and company secretary	August 2021
Mr. Xu Hailong	Deputy general manager	May 2019
Ms. Chen Liying ⁽⁸⁾	Chief accountant, Board secretary and company secretary	May 2018

Notes:

- (1) Mr. Zhang Junzhou resigned as the general manager of the Company on 25 January 2022.
- (2) Mr. Lin Yang was appointed as a non-executive Director of the Company on 27 October 2021.
- (3) Mr. Sun Hua resigned as a non-executive Director of the Company on 27 October 2021.
- (4) Mr. Huang Chun was appointed as an independent non-executive Director of the Company on 27 October 2021.
- (5) Mr. Zheng Jianzhuang resigned as an independent non-executive Director of the Company on 27 October 2021.
- (6) Mr. Pan Gang was appointed as the general manager of the Company on 25 January 2022.
- (7) Mr. Zheng Ranhan was appointed as a deputy general manager, chief accountant, Board secretary and company secretary of the Company on 25 August 2021.
- (8) Mr. Chen Liying resigned as a chief accountant, Board secretary and company secretary of the Company on 21 June 2021.

REPORT OF DIRECTORS

To the best of knowledge, information and belief of the Directors, the Directors, Supervisors and senior management do not have any relationship amongst them.

Biographical details of the Directors, Supervisors and senior management are set out on pages 21 to 31 of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

According to the Articles of Association, the terms of service of both the Directors and the Supervisors are for three years, and all Directors and Supervisors are subject to reappointment or re-election upon the expiry of their term. Each of the Directors and Supervisors has entered into a service contract with the Company, and each Directors' service contract has a term of three years.

None of the Directors or Supervisors has or is proposed to have a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent and remain so as at the date of this annual report.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue	Approximate percentage of shareholding in the total number of Shares in issue
				(%)	(%)
Mr. Yang Yide	Interest of controlled corporation ⁽²⁾	Domestic Shares	10,058,338 (L)	6.71%	5.03%

Notes:

- (1) As at 31 December 2021, the Company had issued 200,000,000 Shares in total, including 150,000,000 Domestic Shares and 50,000,000 H Shares. The letter "L" denotes the person's long position in the Shares.
- (2) Qufeng Holdings Limited, which is owned as to 80% by Mr. Yang Yide, directly held 10,058,338 Domestic Shares. By virtue of the SFO, Mr. Yang Yide was deemed to have an interest in the Shares held by Qufeng Holdings Limited.



REPORT OF DIRECTORS

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors or chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the following persons (not being a Director, Supervisor and chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Taizhou State-owned Capital Operation Group Co., Ltd.* ⁽²⁾	Interest in controlled corporation	Domestic Shares	43,250,855	28.83%	21.63%
Taizhou Urban Construction ⁽²⁾	Beneficial owner	Domestic Shares	43,250,855	28.83%	21.63%
The Finance Bureau of Huangyan District of Taizhou* ⁽³⁾	Interest in controlled corporation	Domestic Shares	26,679,541	17.79%	13.34%
Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.* ⁽³⁾	Interest in controlled corporation	Domestic Shares	26,679,541	17.79%	13.34%
Zhejiang Yongning Financial Consulting Co., Ltd.* ⁽³⁾	Beneficial owner	Domestic Shares	26,679,541	17.79%	13.34%
Taizhou Finance Bureau of Jiaojiang District* ⁽⁴⁾	Interest in controlled corporation	Domestic Shares	22,222,893	14.82%	11.11%

REPORT OF DIRECTORS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Taizhou Jiaojiang Infrastructure Investment Company ⁽⁴⁾	Beneficial owner	Domestic Shares	22,222,893	14.82%	11.11%
Zhejiang International Business Group Co., Ltd. ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Zheshang Asset Management Co., Ltd.* ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou State-owned Assets Investment Group Co., Ltd. ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Taixin Asset Management Co., Ltd.* ⁽⁵⁾	Beneficial owner	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou Luqiao Public Assets Investment Management Group Co., Ltd.*	Beneficial owner	Domestic Shares	17,613,358	11.74%	8.81%
Qufeng Holdings Limited*	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Lipin Enterprise (Group) Co., Ltd.* ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Lipin Sanmin Culture Communication Co., Ltd.* ⁽⁶⁾	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Mr. Ying Wenhua ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Industrial Investment (Holdings) Company Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Industrial Investment Treasury Company Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%



REPORT OF DIRECTORS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Shanghai Investment Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Industrial Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Infrastructure Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Triumph Power Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Holdings Ltd. ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Tech (Hong Kong) Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Yangtze River Delta Water Environment Investment Fund Limited ⁽⁷⁾	Beneficial owner	H Shares	12,500,000	25.00%	6.25%
Mr. Chung Chi Man ⁽⁸⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Billion Shine International Investment Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Innovax Holdings Limited ⁽⁹⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Ms. Lee Yin Har ⁽⁹⁾	Interest of spouse	H Shares	11,999,000	23.99%	6.00%
Orient Fund Management Co., Ltd.*	Trustee	H Shares	4,860,000	9.72%	2.43%

* For identification purpose only



REPORT OF DIRECTORS

Notes:

- (1) As at 31 December 2021, the Company had issued an aggregate of 200,000,000 Shares, including 150,000,000 Domestic Shares and 50,000,000 H Shares.
- (2) Taizhou Urban Construction is wholly-owned by Taizhou State-owned Capital Operation Group Co., Ltd.. By virtue of the SFO, Taizhou State-owned Capital Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Taizhou Urban Construction.
- (3) Zhejiang Yongning Financial Consulting Co., Ltd. is a state-owned enterprise indirectly wholly-owned by the Finance Bureau of Huangyan District of Taizhou through its wholly-owned subsidiary, Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.. By virtue of the SFO, each of the Finance Bureau of Huangyan District of Taizhou and Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Zhejiang Yongning Financial Consulting Co., Ltd..
- (4) Taizhou Jiaojiang Infrastructure Investment Company is a state-owned enterprise wholly-owned by the Finance Bureau of Jiaojiang District. By virtue of the SFO, the Finance Bureau of Jiaojiang District is deemed to have an interest in the Domestic Shares held by Taizhou Jiaojiang Infrastructure Investment Company.
- (5) Zhejiang Taixin Asset Management Co., Ltd. is held as to 40% by Taizhou State-owned Assets Investment Group Co., Ltd. and as to 60% by Zhejiang Zheshang Asset Management Co., Ltd., which is in turn owned as to 69.16% by Zhejiang International Business Group Co., Ltd. By virtue of the SFO, each of Taizhou State-owned Assets Investment Group Co., Ltd., Zhejiang Zheshang Asset Management Co., Ltd. and Zhejiang International Business Group Co., Ltd., is deemed to have an interest in the Domestic Shares held by Zhejiang Taixin Asset Management Co., Ltd..
- (6) Shanghai Lipin Sanmin Culture Communication Co., Ltd. is wholly-owned by Shanghai Lipin Enterprise (Group) Co., Ltd. Shanghai Lipin Enterprise (Group) Co., Ltd. is in turn owned as to 99.70% by Mr. Ying Wenhua. By virtue of the SFO, each of Shanghai Lipin Enterprise (Group) Co., Ltd. and Mr. Ying Wenhua is deemed to be interested in the Domestic Shares held by Shanghai Lipin Sanmin Culture Communication Co., Ltd..
- (7) Shanghai Yangtze River Delta Water Environment Investment Fund Limited is held as to 40% by SIIC Environment Tech (Hong Kong) Limited, which is in turn wholly-owned by SIIC Environment Holdings Ltd.. SIIC Environment Holdings Ltd is held as to 6.36% by S.I. Infrastructure Holdings Limited and as to 37.92% by S.I. Triumph Power Limited, which is in turn wholly-owned by S.I. Infrastructure Holdings Limited. S.I. Infrastructure Holdings Limited is wholly-owned by Shanghai Industrial Holdings Limited, which is in turn owned as to 55.13% by Shanghai Investment Holdings Limited. Shanghai Investment Holdings Limited is wholly-owned by Shanghai Industrial Investment Treasury Company Limited, which is in turn wholly-owned by Shanghai Industrial Investment (Holdings) Company Limited. By virtue of the SFO, SIIC Environment Tech (Hong Kong) Limited, SIIC Environment Holdings Ltd, S.I. Triumph Power Limited, S.I. Infrastructure Holdings Limited, Shanghai Industrial Holdings Limited, Shanghai Investment Holdings Limited, Shanghai Industrial Investment Treasury Company Limited and Shanghai Industrial Investment (Holdings) Company Limited are deemed to have an interest in the H Shares held by Shanghai Yangtze River Delta Water Environment Investment Fund Limited.
- (8) Innovax Holdings Limited is owned as to 75% by Billion Shine International Investment Limited, which is wholly-owned by Mr. Chung Chi Man.
- (9) Ms. Lee Yin Har is the spouse of Mr. Chung Chi Man. By virtue of the SFO, Ms. Lee Yin Har is deemed to be interested in all the H Shares held by Mr. Chung Chi Man.

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any other persons (other than the Directors, Supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.



REPORT OF DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors or Supervisors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

To the knowledge of the Board, none of the Directors or Supervisors or their associates had any interests in any business which competes or is likely to compete, directly or indirectly, with the businesses of the Group for the year ended 31 December 2021.

ISSUANCE OF DEBENTURES

During the Reporting Period, no issuance of debentures was made by the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the Reporting Period are set out in note 32 to the consolidated financial statements.

During the year under review, save for the transactions as set out below, no other related party transactions listed in Note 32 to the consolidated financial statements constituted a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, the Group had not entered into any connected transaction which was required to be disclosed under the Listing Rules.

CONNECTED TRANSACTION

The Acquisition of Equity Interest in Huangyan Water Supply

On 1 September 2021, the Company, Taizhou Huangyan Water Conservancy Development Group Co., Ltd. and Huangyan Water Supply entered into an equity transfer agreement for the Huangyan Water Supply Acquisition.

As one or more of the applicable percentage ratios in respect of the Huangyan Water Supply Acquisition exceed(s) 5% but all of them are less than 25%, the Huangyan Water Supply Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As of the date of this annual report, Taizhou Huangyan Water Conservancy Development Group Co., Ltd. is an indirect wholly-owned subsidiary of Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.* (台州市黃岩國有資本投資運營集團有限公司), the holding company of Zhejiang Yongning Financial Consulting Co., Ltd.* (浙江永寧財務諮詢有限公司), which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, each of Taizhou Huangyan Water Conservancy Development Group Co., Ltd. and Huangyan Water Supply is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Zhejiang Yongning Financial Consulting Co., Ltd.. Thus, the Huangyan Water Supply Acquisition constitutes a connected transaction of the Company for the purpose of Chapter 14A of the Listing Rules.

The Huangyan Water Supply Acquisition was approved by the Shareholders at the 2021 second extraordinary general meeting of the Company held on 27 October 2021. As of the date of this annual report, the Huangyan Water Supply Acquisition has been completed. Further details of the Huangyan Water Supply Acquisition were set out in the Company's announcements dated 1 September 2021 and 31 December 2021 and the Company's circular dated 30 September 2021.

REPORT OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Non-Exempt Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions for the Company during the Reporting Period.

A. *Non-exempt continuing connected transactions*

- (i) Huangyan Water Supply Framework Agreements

On 27 October 2019, the Company and Huangyan Water Supply entered into a water supply framework agreement (the “**2019 Huangyan Water Supply Framework Agreement**”) for a renewable term commencing from the Listing Date and ended on 31 December 2021. Huangyan Water Supply is an indirect wholly-owned subsidiary of Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd. (formerly known as Taizhou Huangyan State-owned Assets Operation Group Co., Ltd.), a substantial shareholder of the Company, and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Pursuant to the 2019 Huangyan Water Supply Framework Agreement, the Company shall provide Huangyan Water Supply with raw water supply services and payment shall be made every month based on the volume of raw water supplied. The annual caps for the sales of raw water under the 2019 Huangyan Water Supply Framework Agreement are RMB41,270,133 and RMB41,828,556 for the two years ended 31 December 2020 and 2021, respectively.

In view of the estimated increase in demand of raw water supply services from Huangyan Water Supply during the year ended 31 December 2020, the Board anticipated that the above annual caps would not be sufficient for the transaction amounts to be incurred under the 2019 Huangyan Water Supply Framework Agreement. As such, on 13 August 2020, the Company and Huangyan Water Supply entered into a supplemental agreement (the “**Supplemental 2019 Huangyan Water Supply Framework Agreement**”), pursuant to which the parties agreed to revise the annual cap for the provision of raw water supply services under the 2019 Huangyan Water Supply Framework Agreement for the year ended 31 December 2020 from RMB41,270,133 to RMB45,720,133. During the year ended 31 December 2020, the sales of raw water to Huangyan Water Supply pursuant to the Supplemental 2019 Huangyan Water Supply Framework Agreement was RMB39,540,000.

In view of the increase demand of raw water supply services from Huangyan Water Supply during the year ended 31 December 2021, the Board anticipated that the annual caps would not be sufficient for the transaction amounts to be incurred under the Supplemental 2019 Huangyan Water Supply Framework Agreement. As such, on 1 September 2021, the Company and Huangyan Water Supply entered into a second supplemental agreement (the “**Second Supplemental 2019 Huangyan Water Supply Framework Agreement**”), pursuant to which the parties agreed to revise the annual cap for the provision of raw water supply services under the Supplemental 2019 Huangyan Water Supply Framework Agreement for the year ended

REPORT OF DIRECTORS

31 December 2021 from RMB41,828,556 to RMB50,620,000. During the year ended 31 December 2021, the sales of raw water to Huangyan Water Supply pursuant to the Second Supplemental 2019 Huangyan Water Supply Framework Agreement was RMB45,927,000.

As the term of the 2019 Huangyan Water Supply Framework Agreement, Supplemental 2019 Huangyan Water Supply Framework Agreement and Second Supplemental 2019 Huangyan Water Supply Framework Agreement as well as the annual caps for the continuing connected transactions thereunder would expire on 31 December 2021, on 1 September 2021, the Company and Huangyan Water Supply entered into a renewal water supply framework agreement (the “**2021 Huangyan Water Supply Framework Agreement**”) for a renewable term commencing from the 1 January 2022 and ending on 31 December 2024 to renew the aforementioned agreements.

Pursuant to the 2021 Huangyan Water Supply Framework Agreement, the Company shall provide Huangyan Water Supply with raw water supply services and payment shall be made every month based on the volume of raw water supplied. The annual caps for the sales of raw water under the 2021 Huangyan Water Supply Framework Agreement are RMB55,250,000, RMB56,790,000 and RMB58,480,000 for the three years ending 31 December 2022, 2023 and 2024, respectively.

(ii) Taizhou Luqiao Water Supply Framework Agreements

On 27 October 2019, (i) the Company and Luqiao Water Supply entered into a raw water supply framework agreement (the “**2019 Taizhou Luqiao Raw Water Supply Framework Agreement**”); and (ii) Taizhou City Water and Luqiao Water Supply entered into a municipal water supply framework agreement (the “**2019 Taizhou Luqiao Municipal Water Supply Framework Agreement**”, together with the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, the “**2019 Taizhou Luqiao Water Supply Framework Agreements**”), each for a renewable term commencing from the Listing Date and ended on 31 December 2021. Luqiao Water Supply is an indirect wholly-owned subsidiary of Taizhou Luqiao Public Assets Investment Management Group Co., Ltd. (formerly known as Taizhou Luqiao Public Assets Investment Management Co., Ltd.), a substantial shareholder of the Company at the time when the 2019 Taizhou Luqiao Water Supply Framework Agreements were entered into, and was therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Pursuant to the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, the Company shall provide Luqiao Water Supply with raw water supply services and payment shall be made every month based on the volume of raw water supplied. The annual cap for the sales of raw water under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement is RMB32,423,715 for the year ended 31 December 2021.

REPORT OF DIRECTORS

Pursuant to the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement, Taizhou City Water shall provide Luqiao Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement are RMB67,705,448 and RMB68,580,538 for the two years ended 31 December 2020 and 2021, respectively.

In view of the estimated increase in demand of municipal water supply services from Luqiao Water Supply during the year ended 31 December 2020, the Board anticipated that the above annual cap for sales of municipal water for the year ended 31 December 2020 would not be sufficient for the transaction amounts to be incurred under the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement. As such, on 13 August 2020, Taizhou City Water and Luqiao Water Supply entered into a supplemental agreement (the “**Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement**”) pursuant to which the parties agreed to revise the annual cap for the provision of municipal water supply services under the 2019 Luqiao Municipal Water Supply Framework Agreement for the year ended 31 December 2020 from RMB67,705,448 to RMB71,315,448. During the years ended 31 December 2020 and 31 December 2021, the sales of municipal water to Luqiao Water Supply pursuant to the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement were RMB66,249,000 and RMB62,940,000, respectively.

In view of the estimated increase in demand of raw water supply services from Luqiao Water Supply during the year ended 31 December 2021, the Board anticipated that the above annual cap for sales of raw water for the year ended 31 December 2021 would not be sufficient for the transaction amounts to be incurred under the 2019 Luqiao Raw Water Supply Framework Agreement. As such, on 1 September 2021, the Company and Luqiao Water Supply entered into a supplemental agreement (the “**Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement**”) pursuant to which the parties agreed to revise the annual cap for the provision of raw water supply services under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement for the year ended 31 December 2021 from RMB32,424,000 to RMB36,000,000. During the year ended 31 December 2021, the sales of raw water to Luqiao Water Supply pursuant to the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement was RMB34,244,000.

For details of the Supplemental 2019 Huangyan Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement, please refer to the circular of the Company dated 3 September 2020.

For details of the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, the 2021 Huangyan Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, please refer to the circular of the Company date 30 September 2021.



REPORT OF DIRECTORS

The annual caps for the transactions under the 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Water Supply Framework Agreements, as amended by the relevant supplemental agreements as set out above (collectively referred to as the “**Non-exempt Continuing Connected Transactions**”) conducted by the Company after the Initial Public Offering have been approved by the Stock Exchange and the Supplemental 2019 Huangyan Water Supply Framework Agreement, the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, the 2021 Huangyan Water Supply Framework Agreement, the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement were all approved by the independent Shareholders at general meetings.

The independent non-executive Directors have reviewed the Non-exempt Continuing Connected Transactions and confirmed that during the year ended 31 December 2021:

- (i) the Non-exempt Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Company;
- (ii) as appropriate, the Non-exempt Continuing Connected Transactions are on normal commercial terms or, on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) the Non-exempt Continuing Connected Transactions have been entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Ernst & Young, the Company’s auditor, was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor’s Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

B. Continuing connected transactions exempt from independent Shareholders’ approval

- (i) **Wenling Water Supply Framework Agreements**
On 27 October 2019, Taizhou City Water and Wenling Water Supply entered into a water supply framework agreement (the “**2019 Wenling Water Supply Framework Agreement**”) for a renewable term commencing from the Listing Date and ended on 31 December 2021. Wenling Water Supply is a substantial shareholder of Taizhou City Water, a subsidiary of the Company, and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

REPORT OF DIRECTORS

Pursuant to the 2019 Wenling Water Supply Framework Agreement, Taizhou City Water shall provide Wenling Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the 2019 Wenling Water Supply Framework Agreement is RMB122,919,000 for the year ended 31 December 2021. During the Reporting Period, the sales of municipal water to Wenling Water Supply pursuant to the 2019 Wenling Water Supply Framework Agreement was RMB113,733,000.

As the term of the 2019 Wenling Water Supply Framework Agreement as well as the annual caps for the continuing connected transaction thereunder expired on 31 December 2021, on 1 September 2021, Taizhou City Water and Wenling Water Supply entered into a renewal water supply framework agreement (the “**2021 Wenling Water Supply Framework Agreement**”) for a renewable term commencing from the 1 January 2022 and ending on 31 December 2024 to renew the aforementioned agreement.

Pursuant to the 2021 Wenling Water Supply Framework Agreement, Taizhou City Water shall provide Wenling Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the 2021 Wenling Water Supply Framework Agreement are RMB129,100,000, RMB129,100,000 and RMB129,450,000 for the three years ending 31 December 2022, 2023 and 2024, respectively.

(ii) Yuhuan Water Supply Framework Agreements

On 27 October 2019, Taizhou City Water and Yuhuan Water Supply entered into a water supply framework agreement (the “**2019 Yuhuan Water Supply Framework Agreement**”) for a renewable term commencing from the Listing Date and ended on 31 December 2021. Yuhuan Water Supply is a wholly-owned subsidiary of Yuhuan Water Supply Group Co., Ltd., which held 40% of the equity interest of Taizhou South Bay Water Supply Co., Ltd., a 60%-owned subsidiary of the Company, and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Pursuant to the 2019 Yuhuan Water Supply Framework Agreement, Taizhou City Water shall provide Yuhuan Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the 2019 Yuhuan Water Supply Framework Agreement is RMB55,124,000 for the year ended 31 December 2021. During the Reporting Period, sales of municipal water to Yuhuan Water Supply pursuant to the 2019 Yuhuan Water Supply Framework Agreement was RMB51,783,000.



REPORT OF DIRECTORS

As the term of the 2019 Yuhuan Water Supply Framework Agreement as well as the annual caps for the continuing connected transaction thereunder expired on 31 December 2021, on 1 September 2021, Taizhou City Water and Yuhuan Water Supply entered into a renewal water supply framework agreement (the “**2021 Yuhuan Water Supply Framework Agreement**”) for a renewable term commencing from the 1 January 2022 and ending on 31 December 2024 to renew the aforementioned agreement.

Pursuant to the 2021 Yuhuan Water Supply Framework Agreement, Taizhou City Water shall provide Yuhuan Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the 2021 Yuhuan Water Supply Framework Agreement are RMB61,310,000, RMB61,310,000 and RMB61,470,000 for the three years ending 31 December 2022, 2023 and 2024, respectively.

For details of the 2019 Wenling Water Supply Framework Agreement and 2019 Yuhuan Water Supply Framework Agreement, please refer to the Prospectus.

For the details of the 2021 Wenling Water Supply Framework Agreement and 2021 Yuhuan Water Supply Framework Agreement, please refer to the announcement of the Company dated 1 September 2021.

Since each of Wenling Water Supply and Yuhuan Water Supply is a connected person at the subsidiary level and the Board (including all the independent non-executive Directors) has approved the 2019 Wenling Water Supply Framework Agreement and the 2021 Wenling Water Supply Framework Agreement (the “**Wenling Water Supply Framework Agreements**”) and the 2019 Yuhuan Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement (the “**Yuhuan Water Supply Framework Agreements**”) and the transactions contemplated thereunder and all the independent non-executive Directors have confirmed that the terms of the Wenling Water Supply Framework Agreements and Yuhuan Water Supply Framework Agreements are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the Wenling Water Supply Framework Agreements and Yuhuan Water Supply Framework Agreements are subject to the reporting, annual review and announcement but will be exempt from the circular, independent financial advice and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

C. Exempt continuing connected transactions

During the year under review, Taizhou Urban Construction, a substantial Shareholder of the Company, has provided guarantee for a loan granted by China Development Fund Co., Ltd. to the Company. As the guarantee provided by Taizhou Urban Construction is on normal commercial terms or better and are not secured by the assets of the Group, the said provision of guarantee is fully exempt under Rule 14A.90 of the Listing Rules.



REPORT OF DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director or Supervisor or an entity connected with a Director or Supervisor was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during the Reporting Period.

SIGNIFICANT CONTRACT

Save as disclosed in this annual report, no significant contract was entered into between the Company or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period between the Company and a person other than a Director or Supervisor or any person engaged in the full-time employment of the Company.

DIRECTORS' PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate insurance cover for Directors' and senior officers' liabilities in respect of legal actions arising out of corporate activities against the Directors and senior officers of the Company and its associated companies during the Reporting Period and up to the date of this annual report.

Except for such insurances, at no time during the Reporting Period and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company or associated companies.

STAFF, EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2021, we had a total of 206 employees. All of our employees are based in the PRC. Our employees are generally remunerated by way of fixed salary, and also entitled to a performance-based bonus, paid leave and various subsidies. The Remuneration Committee was set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, the Supervisors and five highest paid individuals for the year ended 31 December 2021 are set out in notes 8 and 9 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreement during the Reporting Period.

CHARITABLE DONATIONS

The donations made by the Group during the Reporting Period amounted to RMB0.3 million.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares of the Company were listed on the Main Board of the Stock Exchange on 31 December 2019 and the total net proceeds raised from the Initial Public Offering were approximately HKD167.5 million after deducting professional fees, underwriting commissions and other related Listing expenses (the "Net Proceeds").



REPORT OF DIRECTORS

The intended uses and the balance of the Net Proceeds as at 31 December 2021 are set out below:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Amount of Net Proceeds utilised during the Reporting Period	Amount of Net Proceeds utilised up to 31 December 2021	Balance of Proceeds unutilised as at 31 December 2021	Intended timetable for use of the unutilised Net Proceeds
(i) For the construction of the Taizhou Water Supply System (Phase III)	HK\$150.75 million	90%	HK\$150.75 million	HK\$26.64 million	Nil	By/before 31 December 2021
(ii) For providing funding for our working capital and other general corporate purposes	HK\$16.75 million	10%	HK\$16.75 million	HK\$16.75 million	Nil	By/before 31 December 2021
Total	HK\$167.5 million	100%	HK\$167.5 million	HK\$43.39 million	Nil	By/before 31 December 2021

As at 31 December 2021, the total amount of Net Proceeds had been fully utilised.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2021, the Group had not been involved in any material litigation nor arbitration and the Directors are not aware of any litigation or claims of material importance pending or threatened against the Group.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group strived to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Corporate Governance Code as its own code of corporate governance. During the Reporting Period, the Company has complied with the provisions set out in the Corporate Governance Code. Information on the corporate governance practices adopted by the Group is set out in the Corporate Governance Report on pages 55 to 66 of this annual report. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the Corporate Governance Code.

AUDIT COMMITTEE

The Audit Committee, together with the management, had reviewed the accounting policies and practices adopted by the Group as well as the internal control matters, and had also reviewed the Group's consolidated financial statements for the year ended 31 December 2021.

AUDITOR

The consolidated financial statements of the Group for the ended 31 December 2021 have been audited by Ernst & Young.

Ernst & Young shall retire at the AGM and being eligible, has offered itself for re-appointment, and a resolution to this effect shall be proposed at the AGM.

On behalf of the Board
Mr. Yang Jun
Chairman of the Board

Taizhou, the PRC, 28 March 2022



REPORT OF THE SUPERVISORY COMMITTEE

In 2021, in strict compliance with the related laws including the Company Law and the relevant requirements of the Articles of Association and the Procedural Rules of the Supervisory Committee of the Company, abiding by the principle of good faith and in a responsible manner towards the Company and all shareholders, members of the Supervisory Committee have conscientiously performed their supervisory duties and actively carried out its work, attended the Board meetings and general meetings of the Company, and effectively supervised the legal compliance of the Company's operations, its financial condition and the performance of duties of the Directors and management of the Company to promote standardised operation of the Company.

I. WORK OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee convened two meetings in accordance with relevant rules: On 25 March 2021, the seventh meeting of the fourth session of the Supervisory Committee was convened to consider two proposals, namely the Proposal on the Company's 2020 Report on the Work of the Supervisory Committee and the Proposal on the Nomination of Non-staff Representative Supervisors of the Fifth Session of the Supervisory Committee. On 23 June 2021, the first meeting of the fifth session of the Supervisory Committee was convened to consider two proposals, namely the Proposal on Waiving the Notice Period for the First Meeting of the Fifth Session of the Supervisory Committee and the Proposal on the Election of the Chairman of the Fifth Session of the Supervisory Committee.

During the Reporting Period, members of the Supervisory Committee attended all the general meetings and Board meetings of the Company, at which they have proposed relevant suggestions and recommendations in a serious and responsible manner, supervised the procedures and contents of such meetings, supervised effectively the procedures for making operation decisions, legal compliance of the operations and the financial condition of the Company as well as performance of the Directors and management in daily operations of the Company. The reasonable suggestions and recommendations proposed by them were adopted by the Company to better protect the legal interests of the Company and the Shareholders.

II. INDEPENDENT OPINIONS ON RELEVANT MATTERS OF THE COMPANY DURING THE REPORTING PERIOD

(I) Opinions of the Supervisory Committee on legal compliance of the Company's operation

In 2021, the Supervisory Committee supervised the procedures for convening the general meetings and the Board meetings, resolutions thereof, the execution of the resolutions of general meetings and Board meetings by the Board, and performance of the senior management of the Company, under the authority conferred by the Company Law and the Articles of Association.



REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the view that the procedures for the decision making of the Company have complied with the relevant requirements of the Company Law and the Articles of Association and the Board has operated under standardised and legal procedures with reasonable decisions and conscientiously executed the resolutions of the general meetings of the Company. The Directors and senior management of the Company were faithful, devoted and responsible in discharging their duties, and did not violate the laws, regulations and the Articles of Association or prejudice the interests of the Company. All resolutions of the general meetings of the Company have been implemented.

(II) Opinions of the Supervisory Committee on the financial performance of the Company

The Supervisory Committee carefully reviewed relevant materials including the financial report for 2021 proposed to be submitted by the Board to the general meetings of the Company, which were prepared under the Hong Kong Financial Reporting Standards and audited and issued with an unqualified opinion by the independent auditor. The Supervisory Committee is of the view that the report gives an objective and true view of the Company's financial condition and operating results.

In 2022, the Supervisory Committee will continue to strictly comply with the requirements of the relevant laws and regulations and the Articles of Association in conscientiously performing their supervisory duties, diligently enhancing supervision efforts and effectively safeguarding and protecting the interests of the Company and Shareholders. The Supervisory Committee will continue to work assiduously to promote the sustainable and healthy development of the Company.

By the order of the
Supervisory Committee

Lin Ying

Chairman of the Supervisory Committee

Taizhou, the PRC

28 March 2022



CORPORATE GOVERNANCE REPORT

The Board of the Company is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules since the Listing Date and has complied with the applicable code provisions throughout the Reporting Period.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

STRATEGIC OBJECTIVES AND BUSINESS MODEL

As a leading water supply service provider in Taizhou, the Group's principal businesses are supply of raw water, municipal water and tap water. At present, while operating the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) in a sustainable manner, the Group also advances its own development through the extension of the water supply geographic coverage in Taizhou and the water supply network by construction of the Taizhou Water Supply System (Phase III) and the Water Supply System (Phase IV). During the Reporting Period, the Group completed the acquisitions of the equity interests of regional water supply companies. Upon the completion of the acquisitions, the Group realised the expansion from raw water supply to the whole industrial chain of urban water supply and opened a new chapter of Taizhou's water supply business.

While developing the principal business of water supply, the Group strived to plan the transformation of the environmental industry and actively explored the layout of the environmental protection business, carrying out preliminary research work to further clarify the idea of transformation and development, laying the foundation for future implementation.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interest of the Company.

There are functional committees and administrative departments established under the Board, each of which adheres to proper management and control principles and strictly implements all established corporate management and control measures.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises fifteen Directors, consisting of two executive Directors, eight non-executive Directors and five independent non-executive Directors. The members of the Board of the Company during the Reporting Period are listed as follows:

Name	Position in the Company
Mr. Yang Jun	Chairman and executive Director
Mr. Zhang Junzhou (resigned as general manager on 25 January 2022)	Vice Chairman, executive Director and general manager
Mr. Wang Haibo	Non-executive Director
Mr. Wang Haiping	Non-executive Director
Ms. Fang Ya	Non-executive Director
Mr. Yu Yangbin	Non-executive Director
Ms. Huang Yuyan	Non-executive Director
Mr. Yang Yide	Non-executive Director
Mr. Guo Dingwen	Non-executive Director
Mr. Lin Yang (appointed on 27 October 2021)	Non-executive Director
Mr. Sun Hua (resigned on 27 October 2021)	Non-executive Director
Mr. Huang Chun (appointed on 27 October 2021)	Independent non-executive Director
Ms. Lin Suyan	Independent non-executive Director
Ms. Hou Meiwen	Independent non-executive Director
Mr. Li Wai Chung	Independent non-executive Director
Mr. Wang Yongyue	Independent non-executive Director
Mr. Zheng Jianzhuang (resigned on 27 October 2021)	Independent non-executive Director



CORPORATE GOVERNANCE REPORT

The list of Directors is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical information of the Directors is set out in the section headed “Biographies of Directors, Supervisors and Senior Management” of this annual report.

Save as disclosed in this annual report, to the best knowledge of the Company, there are no financial, business, family or other material relationships among members of the Board.

Chairman and General Manager

Mr. Yang Jun is the Chairman and Mr. Pan Gang (with effect from 25 January 2022) is the general manager of the Company (the “**General Manager**”). The Chairman and the General Manager are two different positions, and their duties are clearly separated as set out in the Articles of Association.

The main duties of the Chairman are: to preside over shareholders’ general meetings, and convene and preside over meetings of the Board; to supervise and check the execution and implementation of resolutions passed by the Board; to sign the Share certificates, corporate bonds and other securities certificates issued by the Company; to sign the important documents of the Board and other documents which shall be signed by the legal representative of the Company; and to exercise other powers as stipulated by the laws, regulations and the Articles of Association and authorised by the Board. The principal duties of General Manager are: to lead the Company’s production, operation and organise resources to carry out the Board’s resolutions and to report his/her work to the Board; to organise the implementation of the Company’s annual business plan and investment plan; to draft plans for the establishment of the Company’s internal management structure; to draft the Company’s basic management system; to formulate basic and detailed rules and regulations of the Company; to propose the appointment or dismissal of the Company’s deputy general managers, the chief accountant and other senior management to the Board; to appoint or dismiss

other management members other than those required to be appointed or dismissed by the Board; and to exercise other powers as stipulated by the laws, administrative regulations, departmental rules, relevant regulatory authorities and the Articles of Association and authorised by the Board.

Independent Non-Executive Directors

During the Reporting Period, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least five independent non-executive Directors, representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent and remain so as at the date of this annual report.

Appointment and Re-election of Directors

Each of the Directors has entered into a service contract with the Company for a renewable term of three years commencing from their respective date of appointment, which are subject to termination in accordance with their respective terms.

In accordance with the Articles of Association, Directors shall be elected by the general meeting and may serve a term of three years and consecutive terms if re-elected. Any person appointed by the Board to fill a temporary vacancy on or as an addition to the Board shall hold office only until the next general meeting of the Company, and shall then be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company’s affairs.



CORPORATE GOVERNANCE REPORT

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decisions on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Board has clearly set out the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the above said circumstances and ensures they remain appropriate.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal action taken against them arising out of corporate activities. The insurance coverage would be reviewed once on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organised training sessions conducted by the legal advisers for all Directors. The relevant training sessions covered a wide range of relevant topics including directors' duties and responsibilities, continuing connected transaction, disclosure of interests and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.



CORPORATE GOVERNANCE REPORT

The training records of the Directors for the year ended 31 December 2021 are summarised as follows:

Name of Directors	Attending training, briefings, seminars, conferences and workshops relevant to the Company's industry and business, director's duties and/or corporate governance	Reading news alerts, newspapers, journals, magazines and publications relevant to the Company's industry and business, director's duties and/or corporate governance
Executive Directors		
Mr. Yang Jun	√	√
Mr. Zhang Junzhou	√	√
Non-executive Directors		
Mr. Wang Haibo	√	√
Mr. Wang Haiping	√	√
Ms. Fang Ya	√	√
Mr. Yu Yangbin	√	√
Ms. Huang Yuyan	√	√
Mr. Yang Yide	√	√
Mr. Guo Dingwen	√	√
Mr. Lin Yang ⁽¹⁾	√	√
Mr. Sun Hua ⁽²⁾	√	√
Independent non-executive Directors		
Mr. Huang Chun ⁽³⁾	√	√
Ms. Lin Suyan	√	√
Ms. Hou Meiwen	√	√
Mr. Li Wai Chung	√	√
Mr. Wang Yongyue	√	√
Mr. Zheng Jianzhuang ⁽⁴⁾	√	√

⁽¹⁾ Mr. Lin Yang was appointed as a non-executive Director of the Company on 27 October 2021.

⁽²⁾ Mr. Sun Hua resigned as a non-executive Director of the Company on 27 October 2021.

⁽³⁾ Mr. Huang Chun was appointed as an independent non-executive Director of the Company on 27 October 2021.

⁽⁴⁾ Mr. Zheng Jianzhuang resigned as an independent non-executive Director of the Company on 27 October 2021.

BOARD COMMITTEES

The Board has established four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee, each of which has been delegated responsibilities and reports back to the Board. The roles and functions of these committees are set out in their respective terms of reference. The terms

of reference of each of these committees will be revised from time to time to ensure that they continue to meet the needs of the Company and to ensure compliance with the Corporate Governance Code where applicable. The terms of reference of all the aforementioned Board committees are available on the websites of the Company and the Stock Exchange.



CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors, namely Mr. Li Wai Chung and Ms. Hou Meiwen, and one non-executive Director, namely Mr. Wang Haiping. Mr. Li Wai Chung is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the Corporate Governance Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, providing advice and comments to the Board and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period and up to the date of this annual report, the Audit Committee held four meetings with the external auditor of the Company to discuss the annual financial results and report for the year ended 31 December 2021, and interim results and report for the six months ended 30 June 2021. The Audit Committee has reviewed and discussed significant issues on the financial reporting, operational and compliance controls, effectiveness of the risk management and internal control systems and internal audit matters with the Board.

Remuneration Committee

The Remuneration Committee comprises five members, including three independent non-executive Directors, namely Mr. Wang Yongyue, Mr. Huang Chun and Ms. Lin Suyan, and two executive Directors, namely Mr. Yang Jun and Mr. Zhang Junzhou. Mr. Wang Yongyue is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the Corporate Governance Code. The primary functions of the Remuneration Committee include determining or making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management; establishing a formal and transparent procedure for developing remuneration policy to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the Reporting Period and up to the date of this annual report, the Remuneration Committee held two meetings and reviewed the remuneration policy and structure of the Company and assessed the performance and remuneration packages of the Directors and senior management, and made recommendations to the Board, where appropriate.

Pursuant to paragraph E.1.5 of the Corporate Governance Code, the remuneration paid to the senior management by bands for the year ended 31 December 2021 is set out below:

Remuneration bands	Number of individuals
Nil to HK\$1,000,000	5

Nomination Committee

The Nomination Committee comprises seven members, including one executive Director, namely Mr. Yang Jun, two non-executive Directors, namely Mr. Yu Yangbin and Mr. Yang Yide, and four independent non-executive Directors, namely Mr. Huang Chun, Ms. Lin Suyan, Ms. Hou Meiwen and Mr. Wang Yongyue. Mr. Yang Jun is the chairman of the Nomination Committee.



CORPORATE GOVERNANCE REPORT

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code. The principal duties of the Nomination Committee include reviewing the structure, size and diversity required of the Board annually and making recommendations on any proposed change to the Board to complement the Company's corporate strategy; monitoring the implementation of diversity policy for board members, and assessing the independence of independent non-executive Directors.

During the Reporting Period and up to the date of this annual report, the Nomination Committee held two meetings to discuss the nomination and appointment matters of Directors, and review the structure, size and composition of the Board and the independence of the independent non-executive Directors.

The procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee will identify individuals suitably qualified to become directors and make recommendations to the Board on the selection of individuals. The Nomination Committee will determine the composition of Board members based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will also make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular the Chairman and the General Manager), taking into account the Company's corporate strategy and mix of skills, knowledge, experience and diversity needed in the future.

The Board has adopted a board diversity policy which sets out the basic principles to be followed to ensure that the board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. The Nomination Committee shall review this policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the Board.

Strategy Committee

The Strategy Committee comprises seven members, including two executive Directors, namely Mr. Yang Jun and Mr. Zhang Junzhou, four non-executive Directors, namely Ms. Fang Ya, Mr. Wang Haibo, Ms. Huang Yuyan and Mr. Lin Yang, and one independent non-executive Director, namely Mr. Huang Chun. Mr. Yang Jun is the chairman of the Strategy Committee.

The primary duties of the Strategy Committee are to make recommendations to the Board on the long-term development strategies and major investment decisions of our Group.

During the Reporting Period and up to the date of this annual report, the Strategy Committee held four meetings and reviewed the business development and project investment arrangement for the year ending 31 December 2022.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision A.2.1 of the Corporate Governance Code.

During the Reporting Period and up to the date of this annual report, the Board had reviewed the Company's policies and practices on compliance with legal and regulatory requirements, training and continuous professional development of Directors and senior management, the corporate governance policies and practices, the compliance of the Model Code, and the Company's compliance with the Corporate Governance Code and the disclosure in this Corporate Governance Report.



CORPORATE GOVERNANCE REPORT

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

During the Reporting Period, the Company had adopted the practice of holding Board meetings regularly with at least four times a year, and at approximately quarterly intervals with active participation of majority of the Directors, either in person or through electronic means of communication.

The attendance records of each Director at the Board and Board committee meetings of the Company held during the Reporting Period and up to the date of this annual report are set out below:

Name of Directors	Attendance/Number of Meeting(s)					
	Board meeting(s)	Strategy Committee meeting(s)	Audit Committee Meeting(s)	Remuneration Committee meeting(s)	Nomination Committee meeting(s)	General meeting(s)
Executive Directors						
Mr. Yang Jun	7/7	4/4	N/A	2/2	2/2	3/3
Mr. Zhang Junzhou	7/7	4/4	N/A	2/2	N/A	3/3
Non-executive Directors						
Mr. Wang Haibo	7/7	4/4	N/A	N/A	N/A	3/3
Mr. Wang Haiping	7/7	N/A	4/4	N/A	N/A	3/3
Ms. Fang Ya	7/7	4/4	N/A	N/A	N/A	3/3
Mr. Yu Yangbin	7/7	N/A	N/A	N/A	2/2	3/3
Ms. Huang Yuyan	7/7	4/4	N/A	N/A	N/A	3/3
Mr. Yang Yide	7/7	N/A	N/A	N/A	2/2	3/3
Mr. Guo Dingwen	7/7	N/A	N/A	N/A	N/A	3/3
Mr. Lin Yang ⁽¹⁾	1/1	1/1	N/A	N/A	N/A	0/0
Mr. Sun Hua ⁽²⁾	6/6	3/3	N/A	N/A	N/A	3/3
Independent non-executive Directors						
Mr. Huang Chun ⁽³⁾	1/1	1/1	N/A	0/0	0/0	0/0
Ms. Lin Suyan	7/7	N/A	N/A	2/2	2/2	3/3
Ms. Hou Meiwen	7/7	N/A	4/4	N/A	2/2	3/3
Mr. Li Wai Chung	7/7	N/A	4/4	N/A	N/A	3/3
Mr. Wang Yongyue	7/7	N/A	N/A	2/2	2/2	3/3
Mr. Zheng Jianzhuang ⁽⁴⁾	6/6	3/3	N/A	2/2	2/2	3/3

⁽¹⁾ Mr. Lin Yang was appointed as a non-executive Director of the Company on 27 October 2021.

⁽²⁾ Mr. Sun Hua resigned as a non-executive Director of the Company on 27 October 2021.

⁽³⁾ Mr. Huang Chun was appointed as an independent non-executive Director of the Company on 27 October 2021.

⁽⁴⁾ Mr. Zheng Jianzhuang resigned as an independent non-executive Director of the Company on 27 October 2021.



CORPORATE GOVERNANCE REPORT

Board meetings include regular meetings and extraordinary meetings of the Board. Regular Board meetings shall be held at least four times a year and shall be convened by the Chairman. Notice of a regular Board meeting shall be given to all Directors and supervisors at least 14 days in advance and the Board papers together with all appropriate, complete and reliable information shall be delivered to all Directors at least five days prior to the date of such regular Board meeting.

An extraordinary Board meeting may be held by request of shareholders representing more than 10% of the voting rights or by request of no less than one-third of the Directors or by request of the Supervisory Committee or by request of the General Manager. Notice of an extraordinary Board meeting shall be given to all Directors and Supervisors at least five days in advance and the Board papers thereof shall be delivered to all Directors at least three days prior to the date of such meeting.

The Board shall keep minutes on matters discussed at meetings of the Board, including any concerns or objections raised by the Directors. The minutes shall be signed by the Directors present at the meeting and by the secretary to the Board. Minutes of the Board meeting shall be kept as the Company's record for a period of ten years.

The Board and each Director also have separate and independent access to the senior management whenever necessary.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. Our internal control system and procedures are designed to meet our specific business needs and to minimise our business-related risk exposure. We engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review of the adequacy and effectiveness of the risk management and internal control systems over our major business processes. At the same time, the internal audit department of the Company also conducts audit supervision on the authenticity, legality and effectiveness of the economic activities and related financial income and expenditure of the Group's affiliated enterprises. The Audit Committee reviewed the internal control system of the Group on an annual basis.

In December 2021, the Internal Control Consultant conducted an internal control review (the "**Internal Control Review**") on, among others, control environment, risk management, information and communication, monitoring of controls, operational level controls such as procurement business, construction in progress, fixed assets, investment management etc. and provided recommendations to enhance the internal control system of the Group.

We have adopted and implemented the recommendations provided by the Internal Control Consultant and the Internal Control Consultant has not identified any material findings which may have material impact on the effectiveness of our internal control system.

Based on the results of the follow-up review, our Directors confirmed that as at the date of this annual report, we have adopted all internal measures and policies recommended by the Internal Control Consultant and that our internal control system does not have any major defects and is effective and adequate.



CORPORATE GOVERNANCE REPORT

WHISTLEBLOWING POLICY

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee shall review such arrangement regularly and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

INSIDE INFORMATION

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors. Specific enquiries have been made to all the Directors and Supervisors and the Directors and Supervisors have confirmed that they have complied with the Model Code during the Reporting Period.

DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements relating to disclosure of insider information 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 financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" of this annual report.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The total fee paid/payable to Ernst & Young in respect of audit services and non-audit services during the Reporting Period is set out below:

Category of services	Fee paid/payable RMB'000
Audit services	5,160
Non-audit services	–
Total	5,160

The Group also appointed other external auditors in respect of audit services and non-audit services during the Reporting Period.

JOINT COMPANY SECRETARIES

Ms. Zheng Ranhan and Ms. Siu Pui Wah are the joint company secretaries of the Company. Ms. Siu is a director and head of accounting and corporate services of Trident Corporate Services (Asia) Limited, a global professional services provider. The primary contact person at the Company is Ms. Zheng Ranhan, the deputy general manager, the chief accountant of the Company and secretary of the Board. Ms. Zheng and Ms. Siu worked and communicated closely to discharge the functions of joint company secretaries.

Ms. Chen Liying resigned as the company secretary of the Company on 21 June 2021.

During the Reporting Period, each of Ms. Zheng Ranhai and Ms. Siu has undertaken not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable the Shareholders and investors to make the best investment decisions.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through AGM and other general meetings. The general meetings of the Company provide a platform for communication between the Board and the Shareholders. The Chairman as well as chairmen of the Strategy Committee, Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees, are available to answer Shareholders' questions at general meetings. The external auditor of the Company is also invited to attend the AGM of the Company to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company maintains a website (www.zjtzwater.com), where information and updates on the Company's financial information, corporate governance practices, biographical information of the Board and other information are available for public access.



CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene Extraordinary General Meeting

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 an extraordinary general meeting or Shareholders' class meeting and state the subject matter of the meeting. The Board shall give a written reply as to whether or not it agrees to convene an extraordinary general meeting or Shareholders' class meeting within ten days after receiving the aforesaid written request.
- (2) if the Board agrees to convene an extraordinary general meeting or Shareholders' class meeting, the notice of the meeting shall be issued within five days after the adoption of the relevant Board resolution. Any changes to the original requisition set out in the notice are subject to prior consent of the Shareholders concerned. The Shareholdings referred to above shall be calculated as at the date of the deposit of the requisition by the Shareholders.
- (3) if the Board does not agree to convene an extraordinary general meeting or Shareholders' class meeting or fails to furnish any reply within ten days after receiving such requisition, Shareholders individually or jointly holding 10% or more of the shares carrying the right to vote at the meeting sought to be held shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting or Shareholders' class meeting, provided that such proposal shall be made in writing. In the event that the Supervisory Committee agrees to convene an extraordinary general meeting or class meeting, the notice of the meeting shall be issued within five (5) days after receipt of the request. Any changes to the original proposal set out in the notice are subject to prior consent of the Shareholders concerned. Failure of the Supervisory Committee to issue a notice of meeting within the prescribed time limit shall be deemed as failure of the Supervisory Committee to convene and preside over a general meeting, in which case Shareholders individually or jointly holding 10% or more of the Company's shares for ninety (90) consecutive days or more may convene and preside over the meeting.

If the Board fails to issue a notice of convening such a meeting within 30 days from the date of receipt of such requisition in writing, the requisitioning Shareholders may themselves convene such a meeting with the procedures as similar as possible to that in which general meetings are to be convened by the Board within four months from the date of receipt of the requisition by the Board. A general meeting convened by Shareholders themselves shall be presided over by the representative elected by the convener.

Any reasonable expenses incurred by Shareholders or the Supervisory Committee in convening and presiding over a meeting by reason of the failure of the Board to duly convene a meeting as requested above shall be borne by the Company and shall be set off against sums owed by the Company to the Directors in default.



CORPORATE GOVERNANCE REPORT

Procedures for Shareholders to Nominate Candidates of Directors

Written notices specifying the intention to nominate a person for election as a Director and acceptance of such nomination by such person, as well as the written information on such person, shall be sent to the Company no earlier than the day after dispatch of the notice of the general meeting and no later than seven days prior to the date of such meeting. The minimum length of period during the nomination and acceptance of such nomination shall not be less than seven days.

Based on this, if a Shareholder of the Company intends to propose any person for election as a Director, the following documents shall be effectively delivered to the Company's headquarter in the PRC at No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC or the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, including: (i) the signed notice of the intention to propose the candidate for election as a Director in general meeting; and (ii) the signed notice of the candidate indicating his or her willingness to accept the election, together with (a) information about the candidate required to be disclosed under Rule 13.51(2) of the Listing Rules, and (b) the written consent indicating the consent of the candidate to release his or her personal information.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiry to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: No. 308 Yin Quan Road, Xicheng Street,
Huangyan District, Taizhou,
Zhejiang Province, the PRC
(For the attention of the Board)

Email: ir@zjtzwater.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Constitutional Documents

On 25 March 2021, the Board has resolved to amend the articles set out in the Articles of Association regarding the change of name of a holder of the domestic shares of the Company subsequent to the Listing, and the new Articles of Association was adopted on the same date. On 23 June 2021, the 2021 annual general meeting was held for the Shareholders to approve among others, the amendments to the Articles of Association to reflect the change of name and the new Articles of Association was adopted on the same date. No amendments have been made to the Articles of Association since its last amendment up to the date of this annual report. The Articles of Association is available on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

To the shareholders of Taizhou Water Group Co., Ltd.

(Incorporated in the PRC with limited liability)

OPINION

We have audited the consolidated financial statements of Taizhou Water Group Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) set out on pages 74 to 145, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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 Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. 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 HKICPA’s *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.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for expected credit loss of trade receivables</i></p> <p>As at 31 December 2021, the net carrying value of the Group's trade receivables amounted to RMB100,364,000 (after netting off an impairment provision of RMB53,185,000), representing approximately 2.1% of the Group's total assets.</p> <p>The impairment of trade receivables was assessed based on the expected credit loss model. The assessment of expected credit losses of trade receivables was performed at 31 December 2021 using simplified approach which involved significant management's judgement and estimation including their assessment of customers' current financial positions and forward-looking information. The assessment is highly judgmental.</p> <p>The disclosures about the impairment of trade receivables are included in notes 2.4, 3 and 18 to the financial statements.</p>	<p>We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing, on a sample basis, payments received subsequent to year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics by checking to Purchasing Managers' Index.</p>



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of non-financial assets</p> <p>As the carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2021, the Group performed impairment tests on long-lived non-financial assets or their related cash-generating units. These impairment tests involved significant estimations and judgements around assumptions used, including discount rates, expected future selling prices, future cost of sales and current replacement cost of the assets or the cash-generating units. Based on the test results, no impairment of non-financial assets was provided as at 31 December 2021.</p> <p>The Group's disclosures about impairment of non-financial long-lived assets are included in notes 2.4 and 3 to the financial statements.</p>	<p>We evaluated management's identification of indicators of impairment and cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's historical data and development plan. We reviewed and assessed the inputs used for the estimation of recoverable amount by checking to the current replacement cost of the assets. We involved our internal valuation specialists to assist in evaluating the methodology used, and the underlying assumptions and parameters adopted by management to estimate recoverable amounts of the cash-generating units. We also performed sensitivity analysis on the discount rates applied and the assumptions for revenue levels adopted.</p>



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Acquisitions of associates</p> <p>In 2021, the Company acquired 45% equity interests of Taizhou Water Supply Co., Ltd., Taizhou Jiaobei Water Supply Co., Ltd., Taizhou Luqiao Water Supply Co., Ltd. and Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. for a total cash consideration of RMB294,477,000 leading to the substantial increase in the investments in associates amount. As at 31 December 2021, the net carrying value of the Group's investments in associates amounted to RMB503,699,000, representing approximately 10.4% of the Group's total assets.</p> <p>Management engaged external appraisers to evaluate the fair values of identifiable assets and liabilities of these associates. This matter is significant to our audit because the fair value determination in the accounting for acquisition relied on significant management estimation in respect of fair value assessments.</p> <p>The Group's disclosures about the acquisitions are included in notes 2.4 and 14 to the financial statements.</p>	<p>We obtained and examined the equity transfer agreement, the shareholders' and board resolutions related to these acquisitions, payment vouchers for purchase considerations and documents related to the transfer of property rights. We obtained financial statements of associate companies at the acquisition dates and we performed review procedures.</p> <p>We evaluated the external appraisers' qualifications, professional competence and independence. We involved our internal valuation specialists to assist us in evaluating the valuation methodologies adopted, the assumptions and bases used in the valuation identifiable assets and liabilities. We compared the accounting policies of the acquirees against the Group's accounting policies, assessed the adjustments made to achieve consistency. We also evaluated the adequacy of the disclosures for this acquisition in the financial statements.</p>



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 HKFRSs issued by the HKICPA 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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 HKSAAs 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

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism 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

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

We communicate with the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Lai Chee Kong.

Ernst & Young

Certified Public Accountants

Hong Kong

28 March 2022



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	520,279	483,796
Cost of sales		(293,678)	(279,608)
Gross profit		226,601	204,188
Other income and gains	5	22,245	16,609
Administrative expenses		(55,913)	(50,263)
Other expenses		(563)	(956)
Finance costs	7	(13,945)	(13,343)
Share of profits of associates	14	473	–
PROFIT BEFORE TAX	6	178,898	156,235
Income tax expense	10	(43,907)	(40,006)
PROFIT FOR THE YEAR		134,991	116,229
Attributable to:			
Owners of the parent		120,310	103,069
Non-controlling interests		14,681	13,160
		134,991	116,229
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)	12	0.60	0.52
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Share of other comprehensive income of associates	14	1,230	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		1,230	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		136,221	116,229
Attributable to:			
Owners of the parent		121,540	103,069
Non-controlling interests		14,681	13,160
		136,221	116,229

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,582,469	2,545,168
Prepayments for property, plant and equipment		15,029	32,209
Prepayments for land use rights		165	165
Other intangible assets	16	290	335
Investments in associates	14	503,699	125,000
Deferred tax assets	25	22,008	21,314
Right-of-use assets	15	395,152	412,222
Total non-current assets		4,518,812	3,136,413
CURRENT ASSETS			
Inventories	17	4,896	3,788
Trade receivables	18	100,364	101,586
Prepayments, other receivables and other assets	19	23,602	13,662
Pledged bank deposits	20	17,534	17,238
Cash and cash equivalents	20	190,699	230,369
Total current assets		337,095	366,643
CURRENT LIABILITIES			
Trade payables	21	61,683	60,145
Other payables and accruals	22	764,365	343,231
Interest-bearing bank and other borrowings	23	89,240	193
Deferred government grants	24	3,261	3,261
Lease liabilities	15	19,729	20,875
Tax payable		29,390	14,521
Total current liabilities		967,668	442,226
NET CURRENT LIABILITIES		(630,573)	(75,583)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,888,239	3,060,830

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,888,239	3,060,830
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	2,652,743	1,963,807
Deferred government grants	24	103,595	76,886
Other liabilities		1,533	1,634
Total non-current liabilities		2,757,871	2,042,327
Net assets		1,130,368	1,018,503
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	200,000	200,000
Reserves	27	723,174	635,634
		923,174	835,634
Non-controlling interests		207,194	182,869
Total equity		1,130,368	1,018,503

Yang Jun
Director

Zhang Junzhou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent						
	Share capital RMB'000 (note 26)	Capital reserve* RMB'000 (note 27)	Statutory		Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
			surplus reserve*	Retained profits*			
			RMB'000 (note 27)	RMB'000			
At 1 January 2020	200,000	119,234	49,792	395,524	764,550	137,669	902,219
Profit for the year and total comprehensive income for the year	-	-	-	103,069	103,069	13,160	116,229
Capital contribution by a non-controlling shareholder	-	-	-	-	-	36,000	36,000
Dividends paid to a non-controlling shareholder	-	-	-	-	-	(3,960)	(3,960)
Final 2019 dividend declared	-	-	-	(31,985)	(31,985)	-	(31,985)
Transfer to statutory surplus reserve	-	-	5,913	(5,913)	-	-	-
At 31 December 2020 and 1 January 2021	200,000	119,234	55,705	460,695	835,634	182,869	1,018,503
Profit for the year	-	-	-	120,310	120,310	14,681	134,991
Other comprehensive income for the year: Share of other comprehensive income of associates	-	1,230	-	-	1,230	-	1,230
Total comprehensive income for the year	-	1,230	-	120,310	121,540	14,681	136,221
Capital contribution by a non-controlling shareholder	-	-	-	-	-	14,000	14,000
Dividends paid to a non-controlling shareholder	-	-	-	-	-	(4,356)	(4,356)
Final 2020 dividend declared	-	-	-	(34,000)	(34,000)	-	(34,000)
Transfer to statutory surplus reserve	-	-	7,480	(7,480)	-	-	-
At 31 December 2021	200,000	120,464	63,185	539,525	923,174	207,194	1,130,368

* These reserve accounts comprise the consolidated reserves of RMB723,174,000 (2020: RMB635,634,000) in the consolidated statement of financial position as at 31 December 2021.



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		178,898	156,235
Adjustments for:			
(Gain)/loss on disposal of items of property, plant and equipment	5	(36)	2
Finance costs	7	13,945	13,343
Depreciation of property, plant and equipment	6	53,267	51,823
Share of profits of associates	14	(473)	–
Gains on acquisition of associates	5	(7,519)	–
Depreciation of right-of-use assets	15	9,003	8,570
Net foreign exchange differences	6	87	(177)
Amortisation of government grants	24	(3,291)	(3,290)
Amortisation of other intangible assets	16	88	95
Impairment of trade receivables, net	18	168	1,779
Impairment of financial assets included in prepayments, other receivables and other assets	19	55	216
		244,192	228,596
(Increase)/decrease in inventories		(1,108)	644
Decrease in trade receivables		1,054	673
Increase in prepayments, other receivables and other assets		(4,499)	(13,322)
Increase/(decrease) in trade payables		1,538	(16,664)
Increase/(decrease) in other payables and accruals		5,436	(9,391)
Increase in deferred government grants		30,000	–
Increase/(decrease) in other liabilities		(101)	392
Cash generated from operations		276,512	190,928
Income tax paid		(31,078)	(36,429)
Net cash flows from operating activities		245,434	154,499

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(756,465)	(684,928)
Prepayments for right-of-use assets		(16,558)	(15,622)
Investments in associates		(161,187)	–
Proceeds from disposal of items of property, plant and equipment		62	7
Purchase of other intangible assets	16	(43)	(430)
Increase in pledged bank deposits		(296)	(496)
Net cash flows used in investing activities		(934,487)	(701,469)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		–	170,011
Capital contribution from a non-controlling shareholder	30	14,000	36,000
Proceeds from bank borrowings		780,000	485,000
Repayment of bank and other borrowings		(2,017)	(55,000)
Dividends paid		(34,033)	(31,814)
Dividends paid to a non-controlling shareholder		(4,356)	(3,960)
Share issue expenses		–	(11,451)
Interest paid	28	(104,190)	(75,795)
Net cash flows from financing activities		649,404	512,991
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		230,369	264,357
Effect of foreign exchange rate changes, net		(21)	(9)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows	20	190,699	230,369



NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No. 308, Yin Quan Road Xicheng Street, Huang Yan District, Taizhou, Zhejiang Province, PRC.

The Company and its subsidiaries (together, the "Group") are principally engaged in supplying raw water, municipal water and tap water directly to end-users and the installation of the water pipelines for distributing tap water to end-users.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 December 2019.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Taizhou City Water Co., Ltd. ("Taizhou City Water") (台州市水務有限公司) *	PRC/Mainland China 30 September 2003	RMB220,000,000	82	–	Centralised water production and supply
Wenling Zeguo Water Supply Co., Ltd. ("Wenling Zeguo Water Supply") (溫嶺市澤國自來水有限公司) *	PRC/Mainland China 9 November 2006	RMB30,000,000	100	–	Centralised water supply and pipeline installation service
Taizhou Environmental Development Co., Ltd. ("Taizhou Environmental Development") (台州市環境發展有限公司) *	PRC/Mainland China 5 September 2018	RMB10,000,000	100	–	Dormant
Taizhou South Bay Water Supply Co., Ltd. ("Taizhou South Bay Water Supply") (台州市南部灣區水務有限公司) *	PRC/Mainland China 13 March 2018	RMB260,000,000	60	–	Centralised water production and supply
Taizhou Binhai Water Co., Ltd. ("Binhai Water") (台州市濱海水務有限公司) *	PRC/Mainland China 7 June 2016	RMB200,000,000	51	49	Centralised water production and supply

* These entities are limited liability enterprises established under PRC law.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2021, the Group recorded net current liabilities of approximately RMB630,573,000. Included therein, the Group recorded the other payables and accruals of RMB764,365,000 as at 31 December 2021.

In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. As at 31 December 2021, the Group has available bank facilities with a total amount of RMB11,891,168,000 which can be utilised in the next twelve months. Taking into account these additional financial resources available to the Group and the internally generated funds from operations, the directors believe that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. Therefore, the consolidated financial statements has been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9,
HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

Interest Rate Benchmark Reform Phase 2

Amendment to HKFRS 16

COVID-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group, as the Group does not have rent concessions arising as a direct consequence of the COVID-19 pandemic.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{2,5}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{2,4}</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41¹</i>

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements. Or add the expected impact upon initial application.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associate is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in associate.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of an associate are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's investment in an associate is classified as a non-current asset and is stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	10–35 years
Pipelines	10–20 years
Machinery and equipment	5–20 years
Computer and office equipment	3–10 years
Motor vehicles	4–6 years
Leasehold improvements	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised to profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 4 to 5 years.

Leases

The Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	2–50 years
----------------	------------

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of leasehold land (that is those leases 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 an expense on a straight-line basis over the lease term.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt investments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (a) where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (a) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of water

Revenue from the sale of water is recognised at the point in time when control of the water is transferred to the customer, generally on delivery of the water.

(b) Installation services

The Group provides installation services that are sold separately to a customer.

Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The input method recognises revenue on the basis of the actual cost expended relative to the total expected cost to complete the service.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Pension scheme

The Group participates in the central pension schemes as defined by the laws of the countries in which it has operations. The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.11% and 4.29% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2021, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on the price that would be required currently to replace the service capacity of an asset less incremental costs for disposing of the asset. When value in use calculations are undertaken, the Group estimates the expected future cash flows from the assets or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

The key assumptions used in the fair value less costs of disposal calculations mainly include current replacement cost. The key assumptions used in the expected future cash flows calculations include appropriate discount rates, expected future selling prices and future cost of sales. Where the expectation is different from the original estimates, the carrying value and provision for such non-financial assets in the period in which such estimates are changed will be adjusted accordingly.

Based on the test results, no impairment of non-financial assets was provided as at 31 December 2021.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to these financial statements.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2021 was RMB22,364,000 (2020: RMB19,174,000). Further details are contained in note 25 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group only has one reportable operating segment which is water supply and installation of water pipelines. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographic information

(a) Revenue from external customers

During the year, the Group operated within one geographical area as all of the Group's revenue was generated from customers located in Mainland China.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2021 RMB'000	2020 RMB'000
Customer 1	153,849	137,466
Customer 2	113,733	104,652
Customer 3	97,184	96,704
Customer 4	N/A*	52,219

* The corresponding revenue from the customer is not disclosed as the revenue did not individually account for 10% or more of the Group's revenue for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	520,279	483,796

Revenue from contracts with customers

(a) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Type of goods or services		
Sale of water	505,972	471,185
Installation services	14,307	12,611
Total revenue from contracts with customers	520,279	483,796
Timing of revenue recognition		
Goods transferred at a point in time	505,972	471,185
Services transferred over time	14,307	12,611
Total revenue from contracts with customers	520,279	483,796

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2021 RMB'000	2020 RMB'000
Current (note 22(b))	4,562	3,067

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The amount was included in "Other payables and accruals" in the consolidated statement of financial position.

- (i) Significant changes in contract liabilities
The changes in the contract liabilities are mainly attributable to the short-term advances received to transfer goods to customers and satisfaction of performance obligations.
- (ii) Revenue recognised in relation to contract liabilities
The following table shows the amount of revenue recognised during the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Installation services	3,067	1,683



NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(c) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of water

The performance obligation is satisfied upon delivery of the water and payment is generally due within two months.

Installation services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of installation and customer acceptance.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2021 RMB'000	2020 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	21,963	16,030

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2021 RMB'000	2020 RMB'000
Other income		
Bank interest income	2,715	3,649
Government grants	864	455
Value added tax refund	10,962	11,553
Others	149	775
	14,690	16,432
Gains		
Gains on acquisition of associates	7,519	–
Foreign exchange gains, net	–	177
Gain on disposal of items of property, plant and equipment	36	–
	7,555	177
	22,245	16,609

NOTES TO FINANCIAL STATEMENTS

31 December 2021

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold*		282,480	270,529
Cost of services provided		11,198	9,079
Depreciation of property, plant and equipment		53,267	51,823
Depreciation of right-of-use assets	15(a)	9,003	8,570
Amortisation of other intangible assets**	16	88	95
Impairment of trade receivables, net	18	168	1,779
Impairment of financial assets included in prepayments, other receivables and other assets	19	55	216
Government grants***		(864)	(455)
Foreign exchange differences, net		87	(177)
Auditor's remuneration		5,790	6,359
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration (note 8)):			
Wages and salaries		44,786	40,300
Pension scheme contributions		6,601	2,902
Staff welfare expenses		8,668	6,570
		60,055	49,772
(Gain)/loss on disposal of items of property, plant and equipment		(36)	2

* The cost of inventories sold includes RMB90,679,000 (2020: RMB84,922,000) relating to staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets for the year, which are also included in the respective total amounts disclosed above for each type of expenses.

** The amortisation of other intangible assets for the year is included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

*** The government grants mainly represent compensation by the local government to support the Group's operation in Taizhou City, the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	90,806	60,377
Interest on other borrowings	14,478	16,084
Less: Interest capitalised	(91,339)	(63,118)
	13,945	13,343

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	376	382
Other emoluments:		
Salaries, allowances and benefits in kind	2,300	2,292
Pension scheme contributions	124	8
	2,424	2,300
	2,800	2,682

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 RMB'000	2020 RMB'000
Li Wai Chung	180	180
Hou Meiwen	40	41
Lin Suyan	40	41
Wang Yongyue	40	41
Zheng Jianzhuang (i)	33	41
Huang Chun (ii)	7	–
	340	344

Notes:

(i) Zheng Jianzhuang resigned in October 2021.

(ii) Huang Chun was appointed as an independent non-executive director in October 2021.

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION
(Continued)

(b) Executive directors, non-executive directors, the chief executive and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021				
Executive directors:				
Zhang Junzhou*	–	716	31	747
Yang Jun (i)	–	716	31	747
	–	1,432	62	1,494
Non-executive directors:				
Yang Yide	18	–	–	18
Guo Dingwen	18	–	–	18
Wang Haiping	–	–	–	–
Fang Ya	–	–	–	–
Ye Jianhua (iii)	–	–	–	–
Sun Hua (iv)	–	–	–	–
Lin Yang (vi)	–	–	–	–
Huang Yuyan	–	–	–	–
Wang Haibo	–	–	–	–
Yu Yangbin	–	–	–	–
	36	–	–	36
Supervisors:				
Chen Guojun	–	434	31	465
Zheng Jing (iii)	–	–	–	–
Xu Junwei (v)	–	434	31	465
Lu Huaping	–	–	–	–
Yu Changcheng (iii)	–	–	–	–
Chen Tao (v)	–	–	–	–
Lin Ying	–	–	–	–
	–	868	62	930
	36	2,300	124	2,460

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION
(Continued)(b) Executive directors, non-executive directors, the chief executive and supervisors
(Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020				
Executive directors:				
Zhang Junzhou*	–	708	2	710
Yang Jun (i)	–	587	–	587
Yan Chuanhua (ii)	–	176	2	178
	–	1,471	4	1,475
Non-executive directors:				
Yang Yide	19	–	–	19
Guo Dingwen	19	–	–	19
Wang Haiping	–	–	–	–
Fang Ya	–	–	–	–
Ye Jianhua (iii)	–	–	–	–
Sun Hua (iv)	–	–	–	–
Huang Yuyan	–	–	–	–
Wang Haibo	–	–	–	–
Yu Yangbin	–	–	–	–
	38	–	–	38
Supervisors:				
Chen Guojun	–	409	2	411
Zheng Jing (iii)	–	106	2	108
Xu Junwei (v)	–	306	–	306
Lu Huaping	–	–	–	–
Yu Changcheng (iii)	–	–	–	–
Chen Tao (v)	–	–	–	–
Lin Ying	–	–	–	–
	–	821	4	825
	38	2,292	8	2,338

* Zhang Junzhou was the chief executive of the Company during the year.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive directors, non-executive directors, the chief executive and supervisors (Continued)

Notes:

- (i) Yang Jun was appointed as an executive director in June 2020.
- (ii) Yan Chuanhua retired in June 2020.
- (iii) Ye Jianhua, Zheng Jing and Yu Changcheng retired in March 2020.
- (iv) Sun Hua was appointed as a non-executive director in June 2020 and resigned in October 2021.
- (v) Xu Junwei and Chen Tao were appointed as a supervisor in March 2020 and June 2020, respectively.
- (vi) Lin Yang was appointed as an executive director in October 2021.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2020: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2020: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	1,850	2,434
Pension scheme contributions	93	9
	1,943	2,443

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2021	2020
Nil to HK\$1,000,000	3	4



NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

During the year, except for Taizhou Environmental Development which was entitled to a preferential income tax rate of 10% (2020: 10%) for small and micro enterprises, the provision for current income tax in Mainland China was based on the statutory rate of 25% (2020: 25%) of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

The income tax expense of the Group is analysed as follows:

	2021 RMB'000	2020 RMB'000
Current tax – Mainland China		
Charge for the year	44,601	40,455
Deferred tax (note 25)	(694)	(449)
Total tax charge for the year	43,907	40,006

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2021		2020	
	RMB'000	%	RMB'000	%
Profit before tax	178,898		156,235	
Tax at the statutory tax rate of 25% in Mainland China	44,725	25.0	39,059	25.0
Lower tax rate for specific provinces or enacted by local authority	7	–	(12)	–
Profits attributable to associates	(118)	(0.1)	–	–
Income not subject to tax	(1,880)	(1.0)	–	–
Effect of non-deductible expenses	162	0.1	305	0.2
Tax losses not recognised	1,508	0.8	1,505	0.9
Tax losses utilised from previous years	(497)	(0.3)	(851)	(0.5)
Tax charge at the Group's effective rate	43,907	24.5	40,006	25.6



NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Proposed final – RMB0.17 (2020: RMB0.17) per ordinary share	34,000	34,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive ordinary shares in issue during the year and therefore no adjustment has been made to the basic earnings per share amount presented in respect of a dilution.

The calculation of basic earnings per share is based on:

	2021 RMB'000	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	120,310	103,069

Number of shares

	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	200,000,000	200,000,000



NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021								
At 1 January 2021:								
Cost	419,290	636,632	263,917	61,776	11,669	266	2,110,430	3,503,980
Accumulated depreciation	(240,074)	(432,431)	(228,564)	(51,400)	(6,219)	(124)	-	(958,812)
Net carrying amount	179,216	204,201	35,353	10,376	5,450	142	2,110,430	2,545,168
At 1 January 2021, net of								
accumulated depreciation	179,216	204,201	35,353	10,376	5,450	142	2,110,430	2,545,168
Additions	217	-	1,603	820	670	-	1,064,705	1,068,015
Capitalisation of depreciation of right-of-use assets (note 15)	-	-	-	-	-	-	23,479	23,479
Disposals	(4)	-	(1)	(5)	(16)	-	-	(26)
Depreciation provided during the year	(20,901)	(22,715)	(6,027)	(2,674)	(1,797)	(53)	-	(54,167)
Transfers	9,432	4,284	761	759	-	-	(15,236)	-
At 31 December 2021, net of								
accumulated depreciation	167,960	185,770	31,689	9,276	4,307	89	3,183,378	3,582,469
At 31 December 2021:								
Cost	428,796	640,916	266,249	63,089	11,808	266	3,183,378	4,594,502
Accumulated depreciation	(260,836)	(455,146)	(234,560)	(53,813)	(7,501)	(177)	-	(1,012,033)
Net carrying amount	167,960	185,770	31,689	9,276	4,307	89	3,183,378	3,582,469

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020								
At 1 January 2020:								
Cost	416,537	635,923	262,027	59,508	11,185	266	1,293,243	2,678,689
Accumulated depreciation	(219,768)	(410,183)	(222,596)	(49,070)	(4,578)	(103)	-	(906,298)
Net carrying amount	196,769	225,740	39,431	10,438	6,607	163	1,293,243	1,772,391
At 1 January 2020, net of								
accumulated depreciation	196,769	225,740	39,431	10,438	6,607	163	1,293,243	1,772,391
Additions	639	-	1,229	831	647	-	791,249	794,595
Capitalisation of depreciation of right-of-use assets (note 15)	-	-	-	-	-	-	31,011	31,011
Disposals	-	-	-	(4)	(5)	-	-	(9)
Depreciation provided during the year	(20,306)	(22,248)	(5,968)	(2,478)	(1,799)	(21)	-	(52,820)
Transfers	2,114	709	661	1,589	-	-	(5,073)	-
At 31 December 2020, net of								
accumulated depreciation	179,216	204,201	35,353	10,376	5,450	142	2,110,430	2,545,168
At 31 December 2020:								
Cost	419,290	636,632	263,917	61,776	11,669	266	2,110,430	3,503,980
Accumulated depreciation	(240,074)	(432,431)	(228,564)	(51,400)	(6,219)	(124)	-	(958,812)
Net carrying amount	179,216	204,201	35,353	10,376	5,450	142	2,110,430	2,545,168

14. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	503,699	125,000

The Group's trade receivable, prepayment and other payable balances with the associates are disclosed in note 32.

No associate is individually material to the Group for the year.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Taizhou Zhuxi Reservoir Development Co., Ltd. ("Zhuxi Reservoir Development")*	PRC/Mainland China	RMB800,000,000	25.000	Project construction and operation, water resources development, utilisation and protection
Taizhou Water Supply Co., Ltd. ("Taizhou Water Supply")	PRC/Mainland China	RMB63,716,000	45.000	Water supply, pipelines installation and distribution
Taizhou Jiaobei Water Supply Co., Ltd. ("Jiaobei Water Supply")	PRC/Mainland China	RMB15,500,000	45.000	Water supply, pipelines installation and distribution
Taizhou Luqiao Water Supply Co., Ltd ("Luqiao Water Supply")	PRC/Mainland China	RMB64,460,000	45.000	Water supply
Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. ("Huangyan Water Supply")**	PRC/Mainland China	RMB30,988,000	45.000	Water production, water supply, pipelines installation, water quality inspection, and swimming stadium operation

* The associate has not commenced its operation during the year.

** Formerly known as Zhejiang Huangyan Water Supply Co., Ltd.

The Group's shareholding in the associates comprises equity shares held by the Company.

The financial years of the above associates are coterminous with that of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENTS IN ASSOCIATES (Continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' profit for the year	473	–
Share of the associates' other comprehensive income	1,230	–
Share of the associates' total comprehensive income	1,703	–
Aggregate carrying amount of the Group's investments in the associates	503,699	125,000

15. LEASES

The Group as a lessee

The Group has lease contracts for land used in its operations with lease periods of 2 to 50 years. Lump sum payments were made upfront to acquire certain of these land leases, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land RMB'000	Total RMB'000
As at 1 January 2020	384,484	384,484
Additions	67,319	67,319
Depreciation recognised in profit or loss during the year	(8,570)	(8,570)
Depreciation capitalised in property, plant and equipment during the year (note 13)	(31,011)	(31,011)
As at 31 December 2020 and 1 January 2021	412,222	412,222
Additions	15,412	15,412
Depreciation recognised in profit or loss during the year	(9,003)	(9,003)
Depreciation capitalised in property, plant and equipment during the year (note 13)	(23,479)	(23,479)
As at 31 December 2021	395,152	395,152



NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	20,875	19,372
Additions	15,412	67,319
Transfer from prepayments for land use rights	–	(50,194)
Payments during the year	(16,558)	(15,622)
Carrying amount at 31 December	19,729	20,875
Analysed into:		
Current portion	19,729	20,875

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets	9,003	8,570

(d) The total cash outflow for leases is disclosed in note 28(b) to the financial statements.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000
Cost at 1 January 2021, net of accumulated amortisation	335
Additions	43
Amortisation provided during the year	(88)
At 31 December 2021	290
At 31 December 2021:	
Cost	473
Accumulated amortisation	(183)
Net carrying amount	290



NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. OTHER INTANGIBLE ASSETS (Continued)

	Software RMB'000
Cost at 1 January 2020, net of accumulated amortisation	–
Additions	430
Amortisation provided during the year	(95)
At 31 December 2020	335
At 31 December 2020:	
Cost	430
Accumulated amortisation	(95)
Net carrying amount	335

17. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	4,896	3,788

18. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	17,299	62,017
Due from related parties (note 32(c))	136,250	92,586
	153,549	154,603
Impairment	(53,185)	(53,017)
	100,364	101,586

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

As at 31 December 2021, certain of the Group's trade receivables with a carrying amount of RMB87,659,000 (2020: RMB89,146,000) were pledged to secure the Group's bank loans (note 23).



NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	99,509	96,995
3 to 6 months	–	1,057
6 to 12 months	–	735
1 to 2 years	–	2,027
2 to 3 years	855	772
	100,364	101,586

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	53,017	51,238
Impairment losses, net	168	1,779
At end of year	53,185	53,017

The Group has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. The expected credit losses were determined according to a provision matrix as follows:

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
As at 31 December 2021			
Less than 1 year	100,081	0.57%	570
Between 1 and 2 years	–	37.08%	–
Over 2 years	4,788	82.21%	3,935
Default receivables	48,680	100.00%	48,680
	153,549		53,185
As at 31 December 2020			
Less than 1 year	99,474	0.69%	686
Between 1 and 2 years	3,054	33.63%	1,027
Over 2 years	3,395	77.29%	2,624
Default receivables	48,680	100.00%	48,680
	154,603		53,017



NOTES TO FINANCIAL STATEMENTS

31 December 2021

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments	37	469
Deposits and other receivables	4,147	4,292
Deductible value-added tax	5,358	1,207
Prepaid income tax	2,207	861
Contract assets	12,073	7,053
	23,822	13,882
Impairment allowance	(220)	(220)
	23,602	13,662

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	220	4
Impairment losses recognised	55	216
Write-off	(55)	-
At end of year	220	220

Other receivables mainly represent deposits and advances to third parties. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2021, except for the defaulted other receivables of RMB217,700 (2020: RMB217,700), the probability of default applied ranged from 0.03% to 0.79% (2020: 0.03% to 0.79%) and the loss given default was estimated to be 100% (2020: 100%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there were no comparable companies as at 31 December 2021 was 0.79% (2020: 0.79%).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	190,699	230,369
Pledged bank deposits	17,534	17,238
	208,233	247,607
Less: Pledged deposits for land reclamation fee	(17,534)	(17,238)
Cash and cash equivalents	190,699	230,369
Denominated in:		
RMB	190,001	225,612
Hong Kong dollars ("HK\$")	698	4,757
Cash and cash equivalents	190,699	230,369

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged bank deposits mainly represent deposits pledged to banks to secure land reclamation fee. The pledged bank deposits carry interest at floated rates which range from 0.450% to 1.550% (2020: 0.455% to 1.495%) per annum. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	61,683	60,145

An ageing analysis of the trade payables as at the end of the year, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	43,082	41,091
3 to 6 months	15,152	15,562
6 to 12 months	49	55
Over 12 months	3,400	3,437
	61,683	60,145

The trade payables are non-interest-bearing and are normally settled on terms of one to two months.

22. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Other payables	(a)	629,153	304,027
Accrued salaries		24,445	25,463
Interest payable		3,695	2,601
Contract liabilities	(b)	4,562	3,067
Other taxes payables		11,933	6,674
Due to a related party	32(b)	90,577	1,399
		764,365	343,231

Notes:

- (a) Other payables are non-interest-bearing and repayable on demand.
- (b) Details of contract liabilities are as follows:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers		
Sale of water	83	179
Installation services	4,479	2,888
Total contract liabilities	4,562	3,067

Contract liabilities include short-term advances received to deliver water and installation services. The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to services rendered at the end of the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2021 RMB'000	2020 RMB'000
Current				
Current portion of bank loans				
Bank loans – secured	4.20	2022	30,000	–
Bank loans – secured	4.90	2022	8,240	–
Bank loans – secured	4.90	2021	–	193
Current portion of other borrowings				
Other borrowings – secured	2.80	2022	51,000	–
			89,240	193
Non-current				
Bank loans				
Bank loans – secured	4.63	2041–2044	130,000	130,000
Bank loans – secured	5.15	2027–2028	163,000	163,000
Bank loans – secured	4.90	2025–2049	1,095,743	965,807
Bank loans – secured	4.60	2039–2047	420,000	80,000
Bank loans – secured	4.50	2044–2049	290,000	35,000
Bank loans – secured	4.51	2047	45,000	30,000
Bank loans – secured	4.75	2045	50,000	50,000
Other borrowings				
Other borrowings – secured	2.80	2041	459,000	510,000
			2,652,743	1,963,807
			2,741,983	1,964,000

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	38,240	193
In the second year	12,480	–
In the third to fifth years, inclusive	170,508	163,000
Beyond five years	2,010,755	1,290,807
	2,231,983	1,454,000
Other borrowings repayable:		
Within one year	51,000	–
In the second year	–	51,000
In the third to fifth years, inclusive	51,000	51,000
Beyond five years	408,000	408,000
	510,000	510,000
	2,741,983	1,964,000

Notes:

- (a) The Group's bank and other borrowings are secured by:
- (i) the pledge of the Group's trade receivables with a carrying amount of RMB87,659,000 (2020: RMB89,146,000) (note 18) and the Company's and Taizhou City Water's right of charge on the future revenue generated by Taizhou water supply system (Phase I and Phase II);
 - (ii) the pledge of Binhai Water's right of charge on the future revenue generated by Taizhou water supply system (Phase III); and
 - (iii) the pledge of Taizhou South Bay Water Supply's right of charge on the future revenue guaranteed by Taizhou water supply system (Phase IV).
- (b) A subsidiary of the Company, Taizhou City Water, has guaranteed certain of the Group's bank loans of up to RMB2,125,083,000 (2020: RMB3,366,700,000).
- (c) A shareholder of the Company, Taizhou Urban Construction Investment Development Group Co., Ltd. ("Taizhou Urban Construction"), has guaranteed certain of the Group's other borrowings of up to RMB510,000,000 (2020: RMB510,000,000)(note 32(b)).
- (d) The Company has guaranteed certain of the Group's bank loans of up to RMB4,724,900,000 (2020: RMB5,708,300,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

24. DEFERRED GOVERNMENT GRANTS

	2021 RMB'000	2020 RMB'000
At 1 January	80,147	83,437
Grants received during the year	30,000	–
Amount released	(3,291)	(3,290)
At 31 December	106,856	80,147
Current portion	(3,261)	(3,261)
Non-current portion	103,595	76,886

The government grants are related to the subsidies for the compensation of relocation and reconstruction of the original water supply pipelines of certain projects of the Group. Upon completion of the related projects and successful final assessment of the relevant government authorities, the grants related to assets would be released to profit or loss over the expected useful lives of the relevant assets.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Lease liabilities RMB'000	Impairment of trade and other receivables RMB'000	Accrued salaries RMB'000	Government grants RMB'000	Unrealised profit attributable to the intra-group RMB'000	Total RMB'000
At 1 January 2020	4,843	12,811	1,360	6,694	–	25,708
Deferred tax credited/(charged) to profit or loss during the year (note 10)	376	498	(1)	(696)	648	825
Gross deferred tax assets at 31 December 2020 and 1 January 2021	5,219	13,309	1,359	5,998	648	26,533
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(287)	42	(62)	(782)	1,496	407
Gross deferred tax assets at 31 December 2021	4,932	13,351	1,297	5,216	2,144	26,940



NOTES TO FINANCIAL STATEMENTS

31 December 2021

25. DEFERRED TAX (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

Deferred tax liabilities

	Right-of-use assets RMB'000
At 1 January 2020	4,843
Deferred tax charged to profit or loss during the year (note 10)	376
Gross deferred tax liabilities at 31 December 2020 and 1 January 2021	5,219
Deferred tax credited to profit or loss during the year (note 10)	(287)
Gross deferred tax liabilities at 31 December 2021	4,932

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

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	22,008	21,314

Deferred tax assets have not been recognised in respect of the following item:

	2021 RMB'000	2020 RMB'000
Tax losses	22,364	19,174

The above tax losses arising in Mainland China will expire in one to five years for offsetting against taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. SHARE CAPITAL

	2021 RMB'000	2020 RMB'000
Issued and fully paid:		
Domestic shares of 150,000,000 (2020: 150,000,000) of RMB1.00 each	150,000	150,000
H shares of 50,000,000 (2020: 50,000,000) of RMB1.00 each	50,000	50,000
	200,000	200,000

All domestic shares and H shares rank pari passu with each other in terms of dividend and voting rights.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity.

Capital reserve

The difference between the proceeds from issue of shares and nominal values of shares issued was credited to the Company's share premium accounts. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

Pursuant to the PRC Company Law and the respective entities' articles of association, the Company and its subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory surplus reserve until such reserve fund reaches 50% of the share capital of these entities. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such reserve must be maintained at a minimum of 25% of the share capital after offsetting prior years' losses.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Interest payable RMB'000
At 1 January 2020	1,534,000	1,935
Changes from financing cash flows	430,000	(75,795)
Interest on bank and other borrowings	–	76,461
At 31 December 2020 and 1 January 2021	1,964,000	2,601
Changes from financing cash flows	777,983	(104,190)
Interest on bank and other borrowings	–	105,284
At 31 December 2021	2,741,983	3,695

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within investing activities	16,558	16,122

NOTES TO FINANCIAL STATEMENTS

31 December 2021

29. PLEDGE OF ASSETS

Details of the Group's assets pledged for bank and other borrowings are included in notes 18 and 23 to the financial statements.

30. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2021	2020
Percentage of equity interest held by non-controlling interests:		
Taizhou City Water	18.0%	18.0%
Taizhou South Bay Water Supply	40.0%	40.0%

	2021 RMB'000	2020 RMB'000
Profit for the year allocated to non-controlling interests:		
Taizhou City Water	15,479	13,958
Taizhou South Bay Water Supply	(798)	(798)
Dividends paid to non-controlling interests of Taizhou City Water	4,356	3,960
Capital contribution from non-controlling interests of Taizhou South Bay Water Supply	14,000	36,000
Accumulated balances of non-controlling interests at the reporting date:		
Taizhou City Water	119,429	108,306
Taizhou South Bay Water Supply	87,765	74,563



NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2021

	Taizhou City Water RMB'000	Taizhou South Bay Water Supply RMB'000
Revenue	360,044	–
Total expense	(274,044)	(1,996)
Profit for the year	86,000	(1,996)
Total comprehensive income for the year	86,000	(1,996)
Current assets	644,305	10,161
Non-current assets	346,407	1,099,941
Current liabilities	(75,520)	(160,689)
Non-current liabilities	(251,698)	(730,000)
Net cash flows from operating activities	70,740	28,096
Net cash flows used in investing activities	(8,154)	(319,952)
Net cash flows (used in)/from financing activities	(36,968)	279,801
Net increase/(decrease) in cash and cash equivalents	25,618	(12,055)

2020

	Taizhou City Water RMB'000	Taizhou South Bay Water Supply RMB'000
Revenue	337,912	–
Total expense	(260,369)	(1,994)
Profit for the year	77,543	(1,994)
Total comprehensive income for the year	77,543	(1,994)
Current assets	550,884	22,007
Non-current assets	367,519	643,083
Current liabilities	(64,406)	(48,681)
Non-current liabilities	(252,298)	(430,000)
Net cash flows from operating activities	74,522	854
Net cash flows used in investing activities	(35,048)	(230,697)
Net cash flows from/(used in) financing activities	(34,900)	220,335
Net increase/(decrease) in cash and cash equivalents	4,574	(9,508)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Pipelines and buildings	870,498	1,114,358

32. RELATED PARTY TRANSACTIONS

The Group's related parties are as follows:

Name	Relationship with the Company
Zhejiang Taizhou Landscape Engineering Co., Ltd. ("Zhejiang Taizhou Landscape")	An entity controlled by the shareholders of the Company
Taizhou Modern Construction and Engineering Co., Ltd. ("Taizhou Modern Construction")	An entity controlled by the shareholders of the Company
Taizhou Huangyan Water Conservancy Development Group Co., Ltd. ("Huangyan Water Conservancy")	An entity controlled by the shareholders of the Company
Wenling Water Supply Co., Ltd. ("Wenling Water Supply")	A shareholder of Taizhou City Water
Yuhuan Water Supply Co., Ltd. ("Yuhuan Water Supply")	An entity controlled by the non-controlling shareholders of a subsidiary
Luqiao Water Supply	An associate of the Company
Huangyan Water Supply	An associate of the Company
Taizhou Water Supply	An associate of the Company

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. RELATED PARTY TRANSACTIONS (Continued)

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2021 RMB'000	2020 RMB'000
Associates:			
Purchases of water from:			
Huangyan Water Supply	(i)	32	24
Luqiao Water Supply	(i)	27	14
		59	38
Construction services and other services from:			
Huangyan Water Supply	(i)	34	34
Sales of water to:			
Taizhou Water Supply	(i)	153,849	–
Luqiao Water Supply	(i)	97,184	96,704
Huangyan Water Supply	(i)	45,927	39,540
		296,960	136,244
Other related parties:			
Construction services and other services from:			
Taizhou Modern Construction	(i)	7,148	5,466
Zhejiang Taizhou Landscape	(i)	22,824	800
		29,972	6,266
Sales of water to:			
Yuhuan Water Supply	(i)	51,783	52,219
Wenling Water Supply	(i)	113,733	104,652
Taizhou Modern Construction	(i)	–	171
		165,516	157,042
Acquisition of an associate:			
Huangyan Water Conservancy	(ii)	123,457	–

Notes:

- (i) The water supply and provision of services from the associates and other related parties, and the sales of water and provision of services to the associates and other related parties were made according to the published prices and conditions offered by the Group and the related parties to their major customers.
- (ii) The Company acquired 45% equity interest in Huangyan Water Supply from Huangyan Water Conservancy at a consideration of RMB123,460,000.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties

A shareholder of the Company, Taizhou Urban Construction, has guaranteed certain borrowings made to the Group of up to RMB510,000,000 (2020: RMB510,000,000) as at the end of the period, as disclosed in note 23(c) to the financial statements.

(c) Outstanding balances with related parties:

	2021 RMB'000	2020 RMB'000
Due from related parties:		
Trade in nature		
Taizhou Water Supply	52,989	–
Wenling Water Supply	44,242	49,116
Luqiao Water Supply	21,060	20,553
Huangyan Water Supply	14,117	13,006
Yuhuan Water Supply	3,842	9,911
Balance included in trade receivables (note 18)	136,250	92,586
Zhejiang Taizhou Landscape	1,630	–
Taizhou Modern Construction	100	–
Balance included in prepayments for property, plant and equipment	1,730	–
Due to related parties:		
Trade in nature		
Taizhou Modern Construction	1,951	1,399
Zhejiang Taizhou Landscape	50	–
Non-trade in nature		
Huangyan Water Conservancy	88,576	–
Balance included in other payables and accruals (note 22)	90,577	1,399

The balances with related parties are unsecured, interest-free and repayable on demand.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	4,412	4,512
Pension scheme contributions	211	16
Total compensation paid to key management personnel	4,623	4,528

Further details of directors', chief executive's and supervisors' emoluments are included in note 8 to these financial statements.

The related party transactions in respect of sale of water as set out in note 32(a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets at amortised cost

	2021 RMB'000	2020 RMB'000
Trade receivables	100,364	101,586
Financial assets included in prepayments, other receivables and other assets	16,000	11,125
Pledged bank deposits	17,534	17,238
Cash and cash equivalents	190,699	230,369
	324,597	360,318



NOTES TO FINANCIAL STATEMENTS

31 December 2021

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities at amortised cost

	2021 RMB'000	2020 RMB'000
Trade payables	61,683	60,145
Financial liabilities included in other payables and accruals	723,425	308,027
Lease liabilities	19,729	20,875
Interest-bearing bank and other borrowings	2,741,983	1,964,000
	3,546,820	2,353,047

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair value	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Financial liabilities				
Non-current portion of interest-bearing bank and other borrowings (note 23)	2,652,743	1,963,807	2,636,287	1,926,334

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Management has assessed that the fair values of the non-current portion of interest-bearing bank and other borrowings based on prevailing market interest rates approximate to their carrying amounts. The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2021 were assessed to be insignificant.

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2020 and 2021.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:**2021**

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Non-current portion of interest-bearing bank and other borrowings	–	2,636,287	–	2,636,287

2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Non-current portion of interest-bearing bank and other borrowings	–	1,926,334	–	1,926,334

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents and pledged bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2021		
RMB	50	(9,742)
RMB	(50)	9,742
2020		
RMB	50	(5,896)
RMB	(50)	5,896

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

31 December 2021

	12-month ECLs			Lifetime ECLs	
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	153,549	153,549
Financial assets included in prepayments, other receivables and other assets					
– Normal**	16,002	–	–	–	16,002
– Doubtful**	–	–	218	–	218
Pledged bank deposits					
– Not yet past due	17,534	–	–	–	17,534
Cash and cash equivalents					
– Not yet past due	190,699	–	–	–	190,699
	224,235	–	218	153,549	378,002

31 December 2020

	12-month ECLs			Lifetime ECLs	
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	154,603	154,603
Financial assets included in prepayments, other receivables and other assets					
– Normal**	11,127	–	–	–	11,127
– Doubtful**	–	–	218	–	218
Pledged bank deposits					
– Not yet past due	17,238	–	–	–	17,238
Cash and cash equivalents					
– Not yet past due	230,369	–	–	–	230,369
	258,734	–	218	154,603	413,555



NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to these financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2021					
	On demand	Less than	3 to 12	1 to 5	Over	Total
	RMB'000	3 months	months	years	5 years	
Interest-bearing bank and other borrowings	–	30,216	179,140	697,532	4,399,143	5,306,031
Trade payables	18,601	43,082	–	–	–	61,683
Financial liabilities included in other payables and accruals	710,082	988	9,885	2,470	–	723,425
Lease liabilities	19,729	–	–	–	–	19,729
	748,412	74,286	189,025	700,002	4,399,143	6,110,868

	2020					
	On demand	Less than	3 to 12	1 to 5	Over	Total
	RMB'000	3 months	months	years	5 years	
Interest-bearing bank and other borrowings	–	21,274	64,003	602,822	3,134,702	3,822,801
Trade payables	39,789	20,356	–	–	–	60,145
Financial liabilities included in other payables and accruals	301,968	5,859	200	–	–	308,027
Lease liabilities	20,875	–	–	–	–	20,875
	362,632	47,489	64,203	602,822	3,134,702	4,211,848



NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Foreign currency risk**

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2021		
If the RMB weakens against the HK\$	5	35
If the RMB strengthens against the HK\$	(5)	(35)
2020		
If the RMB weakens against the HK\$	5	224
If the RMB strengthens against the HK\$	(5)	(224)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2021.



NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, other liabilities, trade payables, other payables and accruals, lease liabilities, less cash and cash equivalents and pledged bank deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2021 RMB'000	2020 RMB'000
Interest-bearing bank and other borrowings	2,741,983	1,964,000
Other liabilities	1,533	1,634
Trade payables	61,683	60,145
Other payables and accruals	764,365	343,231
Lease liabilities	19,729	20,875
Less: Cash and cash equivalents	(190,699)	(230,369)
Pledged bank deposits	(17,534)	(17,238)
Net debt	3,381,060	2,142,278
Equity attributable to owners of the parent	923,174	835,634
Total capital and net debt	4,304,234	2,977,912
Gearing ratio	79%	72%

36. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2021:

On 21 January 2022, the shareholders of Zhuxi Reservoir Development resolved to increase the registered capital of Zhuxi Reservoir Development from RMB800,000,000 to RMB950,000,000 and that the shareholders of Zhuxi Reservoir Development shall each contribute to the capital injection (in sum of RMB150,000,000) on a pro rata basis to their existing shareholding in Zhuxi Reservoir Development ("Zhuxi Capital Injection"). Upon completion of the Zhuxi Capital Injection, the Company's total capital contribution to Zhuxi Reservoir Development will increase from RMB200,000,000 to RMB237,500,000 and the Company's equity interest in Zhuxi Reservoir Development will remain unchanged at 25%.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	192,957	211,659
Investments in subsidiaries	444,940	418,840
Investments in associates	503,699	125,000
Other intangible asset	169	177
Deferred tax assets	5,259	5,637
Right-of-use assets	6,743	7,112
Total non-current assets	1,153,767	768,425
CURRENT ASSETS		
Inventories	392	305
Trade receivables	25,412	43,856
Prepayments, other receivables and other assets	658,629	622,208
Tax recoverable	1,067	–
Cash and cash equivalents	19,624	78,232
Total current assets	705,124	744,601
CURRENT LIABILITIES		
Trade payables	60,196	58,559
Other payables and accruals	679,995	375,255
Interest-bearing bank and other borrowings	51,000	–
Deferred government grants	2,349	2,349
Tax payable	–	80
Total current liabilities	793,540	436,243
NET CURRENT ASSETS	(88,416)	308,358
TOTAL ASSETS LESS CURRENT LIABILITIES	1,065,351	1,076,783
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	459,000	510,000
Deferred government grants	12,000	14,378
Other liabilities	1,336	1,420
Total non-current liabilities	472,336	525,798
Net assets	593,015	550,985
EQUITY		
Share capital	200,000	200,000
Other reserves (note)	393,015	350,985
Total equity	593,015	550,985

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2020	128,823	60,883	134,131	323,837
Profit for the year	-	-	59,133	59,133
Final 2019 dividend declared	-	-	(31,985)	(31,985)
Transfer to statutory surplus reserve	-	5,913	(5,913)	-
At 31 December 2020 and 1 January 2021	128,823	66,796	155,366	350,985
Profit for the year	-	-	74,800	74,800
Share of other comprehensive income of associates	1,230	-	-	1,230
Final 2020 dividend declared	-	-	(34,000)	(34,000)
Transfer to statutory surplus reserve	-	7,480	(7,480)	-
At 31 December 2021	130,053	74,276	188,686	393,015

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

FIVE-YEAR FINANCIAL SUMMARY

FIVE-YEAR FINANCIAL SUMMARY

Results

	Year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
CONTINUED OPERATIONS					
Revenue	520,279	483,796	472,148	504,263	462,901
Profit before tax from Continued Operations	178,898	156,235	140,479	160,787	138,359
Income tax expense	43,907	40,006	35,958	40,537	36,690
Profit for the year from Continued Operations	134,991	116,229	104,521	120,250	101,669
Profit for the year from Discontinued Operations	–	–	–	3,228	123,747
Profit for the year					
Attributable to:	134,991	116,229	104,521	123,498	225,416
Owners of the Company	120,310	103,069	92,540	110,450	179,997
Non-controlling interests	14,681	13,160	11,981	13,048	45,419

ASSETS AND LIABILITIES

	Year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	4,855,907	3,503,056	2,929,328	1,953,177	2,119,444
Total liabilities	3,725,539	2,484,553	2,027,109	1,307,800	1,637,565
Non-controlling interests	207,194	182,869	137,669	125,688	72,640
Equity attributable to owners of the Company	923,174	835,634	764,550	519,689	409,239

Notes: The summary of the consolidated results and financial position of the Group for the years ended 31 December 2017 and 2018 are extracted from the Prospectus.