



**瀘州市興瀘水務(集團)股份有限公司**

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

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

Stock Code: 2281

# 2021 ANNUAL REPORT



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# CHAPTER I CORPORATE INFORMATION

## BOARD OF DIRECTORS:

### Executive Directors:

Mr. Zhang Qi (張歧先生) (*Chairman of the Board*)  
Mr. Liao Xingyue (廖星樾先生)  
Ms. Huang Mei (黃梅女士)

### Non-executive Directors:

Mr. Chen Bing (陳兵先生)  
Mr. Yu Long (喻龍先生)  
Ms. Hu Fenfen (胡芬芬女士)

### Independent Non-executive Directors:

Ms. Ma Hua (馬樺女士)  
Mr. Fu Ji (傅驥先生)  
Mr. Liang Youguo (梁有國先生)

## STRATEGY COMMITTEE:

Mr. Zhang Qi (張歧先生) (*Chairman*)  
Mr. Chen Bing (陳兵先生)  
Ms. Hu Fenfen (胡芬芬女士)

## AUDIT COMMITTEE:

Mr. Fu Ji (傅驥先生) (*Chairman*)  
Ms. Ma Hua (馬樺女士)  
Mr. Liang Youguo (梁有國先生)

## NOMINATION AND REMUNERATION COMMITTEE:

Ms. Ma Hua (馬樺女士) (*Chairman*)  
Mr. Yu Long (喻龍先生)  
Mr. Liang Youguo (梁有國先生)

## SUPERVISORY COMMITTEE:

Mr. Yang Zhenqiu (楊震球先生)  
(*Chairman of the Supervisory Committee*)  
Mr. Lai Bingyou (賴柄有先生)  
Ms. Xiang Min (向敏女士)  
Mr. Luo Chaoping (羅超平先生)  
Mr. Tang Nanyou (唐南友先生)  
Mr. Gu Ming'an (辜明安先生)  
Mr. Xiong Hua (熊華先生)

## SECRETARY TO THE BOARD:

Mr. Chen Yongzhong (陳永忠先生)

## COMPANY SECRETARY:

Mr. Chen Yongzhong (陳永忠先生)

## AUTHORISED REPRESENTATIVES:

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

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

16 Baizi Road  
Jiangyang District, Luzhou  
Sichuan Province, the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

40th Floor, Dah Sing Financial Centre  
No. 248 Queen's Road East  
Wanchai, Hong Kong

## CHAPTER I CORPORATE INFORMATION (Continued)

### DOMESTIC SHARE REGISTRAR:

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

### H SHARE REGISTRAR:

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

### LEGAL ADVISER:

#### As to Hong Kong law:

Morgan, Lewis & Bockius  
Suites 1902–09, 19th Floor  
Edinburgh Tower, The Landmark  
15 Queen's Road Central  
Hong Kong

### PRINCIPAL BANKERS:

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

### AUDITOR:

SHINEWING (HK) CPA Limited  
9/F, Block A, Fuhua Mansion,  
No. 8 Chaoyangmen North Street,  
Dongcheng District, Beijing, the PRC

### STOCK CODE:

2281

### COMPANY WEBSITE:

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

## CHAPTER II DEFINITIONS

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

“Annual General Meeting” or “AGM”	the annual general meeting to be convened by the Company on 10 June 2022, or any adjournment thereof
“Articles of Association”	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Enterprises Water Group”	Beijing Enterprises Water Group Limited* (北控水務集團有限公司), one of our Shareholders, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 371.HK)
“Board”	the board of Directors
“Company” or “Group” or “us” or “we”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), converted by Xinglu Water Company Limited (a limited liability company established on 31 July 2002) on 25 December 2015, which includes its predecessor and subsidiaries as required by the context
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB

## CHAPTER II DEFINITIONS (Continued)

“Fanxing Environmental”	Luzhou Fanxing Environmental Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a limited liability company established in the PRC on 18 August 2016 and a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“Hejiang Water”	Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.* (瀘州市興瀘水務(集團)合江水業有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in tap water production and sale
“HK\$” or “HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards issued by the International Accounting Standards Board
“CASBE”	Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China and the Rules as amended from time to time
“IPO”	the initial public offering of the Company’s H Shares on the Main Board of the Hong Kong Stock Exchange on 31 March 2017
“Jiangnan Water”	Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.* (瀘州市興瀘水務集團江南水業有限公司), a limited liability company established in the PRC on 7 March 2003 and a wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
“Leshan Xingjia”	Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.* (樂山市興瀘水務興嘉環保科技有限公司) a limited liability company established in the PRC on 28 December 2018 and a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business

## CHAPTER II DEFINITIONS (Continued)

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Luzhou Laojiao”	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), one of our Shareholders
“Luzhou Infrastructure”	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), one of our Shareholders
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Naxi Water”	Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. (瀘州市興瀘水務(集團)納溪水業有限公司), a limited liability company established in the PRC on 17 March 2003 and a wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
“PRC” or “China”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus dated 21 March 2017 in relation to the IPO
“Reporting Period”	the year ended 31 December 2021
“RMB” or “Yuan”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
“Shareholder(s)”	the holder(s) of the Share(s)
“Sitong Design”	Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.* (瀘州市四通給排水工程設計有限公司), a limited liability company established in the PRC on 6 September 2002 and a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply and drainage design service

## CHAPTER II DEFINITIONS (Continued)

“Sitong Engineering”	Luzhou Sitong Tap Water Engineering Co., Ltd.* (瀘州市四通自來水工程有限公司), a limited liability company established in the PRC on 2 September 2002 and a wholly-owned subsidiary of the Company, mainly engaged in the provision of engineering construction service
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Weiyuan Qingxi Water”	Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd. (興瀘水務(集團)威遠清溪水務有限公司), a limited liability company established in the PRC on 30 December 2004 and a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply service
“Weiyuan Installation Company”	Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.* (威遠城市供排水安裝工程有限公司), a limited liability company established in the PRC on 5 November 2007 and a non-wholly owned subsidiary, mainly engaged in the provision of engineering construction service
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), a limited liability company established in the PRC on 28 January 2003 and our Controlling Shareholder
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a limited liability company established in the PRC on 11 December 2000 and a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
“Xingxu Water”	Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (瀘州市興瀘水務(集團)興敘水業有限公司), a limited liability company established in the PRC on 9 October 2018 and a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply service
“Yongxing Water”	Xuyong Yongxing Water Governance Co., Ltd. * (敘永縣永星水環境治理有限公司) a limited liability company established in the PRC on 31 July 2019 and a non-wholly owned subsidiary of the Company, mainly engaged in the provision of water supply service
“%”	percent

\* for identification purpose only



## CHAPTER III CHAIRMAN'S STATEMENT

Writing a New Chapter in  
the Midst of Wind  
and Rain; Moving  
Forward to  
the Future

Zhang Qi

Chairman of  
the Board



## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

I hereby present the annual report of the Group for the year ended 31 December 2021 on behalf of the Board.

In 2021, supported by all shareholders and directed by the Board, the Xinglu Water Group seized the opportunities of Chengdu-Chongqing Double-City Economic Circle and South Sichuan Economic Integration. Following the development philosophy of “principal operations plus expansion and extension” and the management strategy of “innovation, efficiency and high-quality development”, all people of the Group joined forces to make practical advancement, which enabled the Group to maintain steady growth in operating results amid adverse effect of COVID-19.

### BUSINESS REVIEW

In 2021, the Group recorded a total revenue of approximately RMB1,370.1 million, representing an increase of approximately 13.7% as compared to the same period last year; net profit amounted to approximately RMB261.0 million, which was basically in line with the same period last year; basic earnings per share amounted to RMB0.28, which was basically in line with the same period last year. The Board resolved to recommend the distribution of final dividends of RMB0.05 per share (tax inclusive) to the Shareholders for returning their long-term support to the Company.

### INNOVATION

Driven by innovation and technology, the Group further developed its “Internet + Production Management” intelligent water services by building on the successfully developed intelligent operational system for the tap water segment and actively working on intelligent systems for the wastewater treatment segment, including for rural areas. Equipment of integrated micropower wastewater treatment internally developed by the Company, which significantly reduces investment costs and operating costs of wastewater treatment in rural areas, is currently at the stage of market development. The Company actively initiated in-depth cooperation with leading educational institutions and made steady progress towards building a manufacturer-academia integrated platform for research and development to explore technology to “boost capacity at site”. This helped to reliably increase capacity for emergency wastewater treatment and effectively maximize the capacity and quality of water treatment. During the Reporting Period, the Company registered 21 utility models, 2 inventions and 22 computer software copyrights, reflecting the Group's higher soft power and emerging technological edge.

### BUSINESS EXPANSION

During the Reporting Period, the Group actively undertook constructive exploration of sub-segments such as wastewater from the brewery, printing and pulp and paper industries. It also successfully expanded light asset projects of industrial wastewater treatment within and outside the regions it operated, commissioned to operate a number of industrial wastewater treatment projects in Chengdu, Liangshanzhou, Luzhou and other regions. These not only effectively diversified its business and extended its value chain but also built core competitiveness through differentiation in the industrial wastewater segment to create new points of growth in revenue and profits.

## CHAPTER III CHAIRMAN'S STATEMENT (Continued)

### FUTURE PROSPECT

In 2022, the Group will seize development opportunities arising from South Sichuan Economic Integration, rural revitalization and carbon neutrality and emission targets by employing the development philosophy of “principal businesses development, vertical business extension and horizontal regional expansion” and the management strategy of “strong roots and extended branches built on capital empowerment, technology and enhanced services”. It will continue to develop intelligent control and light asset operations, product and service capabilities and professionalism to further fortify its corporate core competitiveness and promote its sustainable and high-quality development.

### ACKNOWLEDGEMENT

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

**Zhang Qi**

*Chairman of the Board*

Luzhou, the PRC

30 March 2022

## CHAPTER IV FINANCIAL HIGHLIGHTS

Upon approval at the second extraordinary general meeting of the Company for 2021 convened on 28 December 2021, the Group adopted the China Accounting Standards for Business Enterprises (the “CASBE”) to prepare its overseas financial statements from 2021 and restated its consolidated financial statements for 2020 according to CASBE. The consolidated financial statements of the Company for the years 2019, 2018 and 2017 were prepared in accordance with the International Financial Reporting Standards and no adjustments were made thereto. Details are showed in the analysis below:

### 4.1 CONSOLIDATED RESULTS

	Year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	<u>1,370,098</u>	<u>1,205,479</u>	<u>2,067,132</u>	<u>1,218,206</u>	<u>1,081,744</u>
Profit before tax	<u>307,322</u>	<u>304,459</u>	<u>231,994</u>	<u>186,630</u>	<u>163,169</u>
Income tax expense	<u>46,347</u>	<u>43,032</u>	<u>(30,471)</u>	<u>(19,388)</u>	<u>(20,480)</u>
Net profit for the year	<u>260,975</u>	<u>261,427</u>	<u>201,523</u>	<u>167,242</u>	<u>142,689</u>
Total comprehensive income for the year attributable to:					
– Shareholders of the Company	<u>241,327</u>	<u>245,081</u>	<u>190,960</u>	<u>153,451</u>	<u>131,298</u>
– Minority shareholders	<u>19,048</u>	<u>14,205</u>	<u>10,932</u>	<u>13,177</u>	<u>11,391</u>
	<u>260,376</u>	<u>259,286</u>	<u>201,892</u>	<u>166,628</u>	<u>142,689</u>
Return on average equity <sup>(Note)</sup>	<u>9.9%</u>	<u>9.9%</u>	<u>8.70%</u>	<u>8.80%</u>	<u>11.4%</u>
Basic earnings per share (RMB)	<u>0.28</u>	<u>0.29</u>	<u>0.18</u>	<u>0.16</u>	<u>0.20</u>

*Note:* Return on average equity equals profit for the year divided by the average balance of total equity at the beginning and end of the period and multiplied by 100%.

## CHAPTER IV FINANCIAL HIGHLIGHTS (Continued)

### 4.2 CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	<b>7,073,316</b>	6,668,536	5,815,603	3,811,837	3,264,816
Total liabilities	<b>4,412,295</b>	4,210,215	(3,688,125)	(1,854,926)	(1,386,900)
Total equity	<b>2,661,021</b>	2,458,321	2,127,478	1,956,911	1,877,916
Equity attributable to shareholders of the Company	<b>2,476,129</b>	2,307,946	2,019,412	1,880,035	1,786,240
Non-controlling interests	<b>184,892</b>	150,375	108,066	76,876	91,676
	<b>2,661,021</b>	2,458,321	2,127,478	1,956,911	1,877,916

# CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

## 5.1 INDUSTRY OVERVIEW

To further fulfill the spirit of important speeches and instructions made by General Secretary Xi Jinping regarding the development of Yangtze River Economic Belt, the Office of the Leading Group for the Development of Yangtze River Economic Belt has made the “Implementation Plan for the ‘14th Five Year Plan’ Yangtze River Economic Belt Development” (the “**Implementation Plan**”) and the specific plans and implementation plans for key areas and key industries, forming a “14th Five Year Plan” Yangtze River Economic Belt Development “1+N” planning and strategic system led by the Implementation Plan, and supported by the several specific plannings regarding integrated traffic & transport system and anti-pollution “4+1” project, wetland conservation, control of plastic pollution, and protection & restoration of tributaries systems that are of high importance. The Implementation Plan raised several key missions such as eco-environment protection, green and low-carbon economy, innovation driven development, integrated transportation, regional coordination, opening up to the outside world, and preservation of the Yangtze River cultures. In summary, such missions are on the following four key areas: 1. strengthening of the protection and restoration of the eco-environment system; 2. promoting green and low-carbon development; 3. boosting coordinated development between urban and rural areas; 4. preservation and inheritance of the Yangtze River cultures. Clearly, our government highly valued the eco-environment protection and development of the Yangtze River Economic Belt, and this will bring new opportunities and developments to those environment protection enterprises along the Yangtze River.

In addition, since the outbreak of the COVID-19 pandemic (the “**Pandemic**”) that ravaged the world, the PRC has quickly implemented emergency measures on “Environmental risk management for pneumonia outbreaks of novel coronavirus infections”, and the most important task for the water environment during this post Pandemic era is how to test the virus in the water environment in a precise, fast and safe way. Both our water environmental and eco-environmental systems are now facing safety problem, and this will lead to the comprehensive upgrade to the protection measures of our water resources. The Pandemic raised new requirements to several areas on public environmental control such as control and management on water environment. Safe water supply is always a crucial factor to the economic and social development of the PRC. After the Pandemic, safety of water environment will be a long-term strategy in the PRC, and will be very crucial to the sustainable social development of the PRC and the health of the people.

As such, we think our water environment control is at a critical and strategic turning point. Our country will keep putting more and more efforts and capital expenditures on building infrastructures in different areas of our water ecology (such as water supply, water drainage, water environment), and will continue to accelerate the integration, systematic protection and control of our water ecological system. Water treatment has become a focus for the water industry, and the management and control of the water environment has become an important part of our economic development and water resources preservation. Such changes bring new opportunities to the development of the water treatment industry.

### 5.2 DEVELOPMENT STRATEGY AND OUTLOOK

The Company will thoroughly implement innovative, coordinated, green, open-minded and sharing development philosophy and those water management measures for a new era that promote “water save, spatial equilibrium, systematic and balanced control”, so as to solidify our positioning as an “utility service provider” for urban water and to seize the opportunities bring by the development of the Chengdu-Chongqing economic circle and Luzhou city. The Company will further open up our mind and be more aggressive to enhance our ability to sustainable and healthy development, and to accelerate the Company’s development from speed and scale driven to more quality and efficiency driven, and from traditional factor driven to more focus on innovation.

The Company promotes our business by both means of “technology empowerment and capital operation”. In the meantime of ensuring safety and quality water supply and optimizing water treatment and environment control, we also made breakthroughs in different areas of our competitive businesses, expanded our operating assets on a large scale, and substantially enhanced the ability of our capital operation. Besides, we further explored the environment protection market by adopting a more precise management, expanding the integration of urban and rural water supply, developing industrial wastewater treatment, design and engineering of water supply and drainage, intelligent water service, expanding the water testing and inspection service to the upstream and downstream production chain. All these made us become a top integrated water service enterprise in the industry.

### 5.3 BUSINESS REVIEW

The Company is an integrated municipal water service provider in Sichuan Province, the PRC, principally engaged in two segmental businesses: tap water supply and wastewater treatment. We adopt project models of build-own-operate (“**BOO**”) and transfer-own-operate (“**TOO**”) in the course of business, where we and local governments enter into concession agreements for a period of 30 years in general. The Company mainly engages business in Luzhou area, Weiyuan area in Neijiang City, Leshan area, part of Liangshan Prefecture, Qingbaijiang area in Chengdu City, the PRC, etc.

As at the end of the Reporting Period, we operated twelve tap water plants, nine city wastewater treatment plants, one industrial park wastewater treatment plant and six entrusted operation wastewater treatment plants. In addition, we operated several wastewater treatment facilities in urban and rural areas, and engaged in entrusted operation and industrial wastewater treatment projects. Our total treatment capacity is approximately 1.277 million tons per day.

#### 5.3.1 Tap Water Project

As at the end of the Reporting Period, the Group owned twelve tap water plants with a daily supply capacity of approximately 774,000 tons (excluding emergency back-up sewage treatment plants), representing an increase of one tap water plant and an increase of approximately 95,000 tons of daily water supply capacity as compared with the end of 2020. The average utilization rate of tap water plants is 63.4%.

During the Reporting Period, our total sales of water amounted to approximately 154.5 million tons, representing an increase of 7.14% as compared with approximately 144.2 million tons for the same period of 2020. The increase was mainly due to the extended water supply areas in cities.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.3.2 Wastewater Treatment Project

As at the end of the Reporting Period, Xinglu Wastewater Treatment owned 9 operating city wastewater treatment plants (excluding emergency back-up sewage treatment plants), with a daily treatment capacity of approximately 397,000 tons in aggregate and production load rate of 86.7%; one industrial park wastewater treatment plant, with a daily treatment capacity of approximately 20,000 tons in aggregate; six entrusted operation wastewater treatment plants, with a daily treatment capacity of approximately 32,000 tons in aggregate; a total of 197 wastewater treatment facilities in the townships and rural areas, with a daily treatment capacity of approximately 54,000 tons.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 144.3 million tons, representing an increase of 3.4% as compared with that of 139.5 million tons for the same period of 2020. Such increase was mainly attributable to the increase of the water treatment volume by the urban wastewater and the entrusted operation projects.

## 5.4 FINANCIAL REVIEW

### Only adopting the China Accounting Standards for Business Enterprises for the preparation of financial statements

Since the date of listing of the H Shares of the Company on the Hong Kong Stock Exchange, the Company has been preparing financial statements in accordance with the International Financial Reporting Standards for disclosure overseas. In order to further improve work efficiency and quality for the preparation of the Company's financial reports and reduce the disclosure and audit costs, as approved at the extraordinary general meeting held on 28 December 2021, the Company has adopted and prepared financial statements for the disclosure of the results of the Company for the year ended 31 December 2021 and subsequent accounting periods only in accordance with CASBEs and for disclosure in the PRC and Hong Kong markets. For details, please see the announcement, circular and poll results announcement of the Company dated 9 December 2021, 10 December 2021 and 28 December 2021 respectively.



### 5.4.1 Analysis of Key Financial Items

#### 5.4.1.1 Operating revenue

During the Reporting Period, operating revenue of the Group amounted to RMB1,370.1 million, increased by 13.7% from RMB1,205.5 million for the same period of 2020. The increase was mainly due to the increase in revenue from the sales of tap water, wastewater fees and installation.

##### 5.4.1.1.1 Tap water supply

###### Sales of tap water

During the Reporting Period, revenue of the Group generated from sales of tap water amounted to RMB385.8 million, increased by 10.7% from RMB348.5 million for the same period of 2020. The increase was primarily due to the increase in sales volume of tap water. Revenue generated from sales of tap water accounted for 28.9% and 28.2% of our total revenue for 2020 and 2021, respectively.

###### Engineering installation

During the Reporting Period, revenue of the Group generated from installation services amounted to RMB469.0 million, increased by 16.8% from RMB401.7 million for the same period of 2020. The increase was mainly due to the increase of installation projects during the Reporting Period. Revenue generated from installation services accounted for 33.3% and 34.2% of our total revenue for 2020 and 2021, respectively.

##### 5.4.1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group from operating services of wastewater treatment amounted to RMB469.3 million, increased by 11.9% from RMB419.4 million for the same period of 2020. The increase was due to the fact that Erdaoxi Project Phase III and Xuyong Project Phase II have been put into operation, leading to an increase of entrusted operation projects. Revenue generated from wastewater treatment accounted for 34.8% and 34.2% of our total revenue for 2020 and 2021, respectively.

### **5.4.1.2 Operating cost**

During the Reporting Period, the Group's operating cost amounted to RMB801.5 million, increased by 18.4% from RMB676.7 million for the same period of 2020. The increase was primarily due to increase in sales volume of tap water, treatment volume of wastewater and number of installation services projects, leading to an increase in costs. Besides, the increase in costs was due to the increase in depreciation expenses following the commissioning of the tap water and wastewater treatment plants under construction.

#### *5.4.1.2.1 Tap water supply*

##### Sales of tap water

During the Reporting Period, the Group's operating cost of tap water amounted to RMB326.7 million, increased by 22.8% from RMB266.0 million for the same period of 2020. The increase was primarily due to the increase in tap water sales and infrastructure amortisation as a result of commencement of operation of tap water plants and water supply pipe networks. Operating cost from tap water supply operations accounted for 40.8% and 39.3% of our total operating cost for 2020 and 2021, respectively.

##### Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB167.3 million, increased by 12.6% from RMB148.5 million for the same period of 2020. The increase was mainly due to the increase in the number of installation works during the Reporting Period, resulting in the increase in cost of installation service. Operating cost associated with installation services accounted for 20.9% and 21.9% of the total operating cost for 2020 and 2021, respectively.

#### *5.4.1.2.2 Wastewater Treatment*

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB282.2 million, increased by 13.0% from RMB249.7 million for the same period of 2020. The increase was mainly due to the increase in wastewater treatment volume during the Reporting Period. Operating cost from wastewater treatment operating services accounted for 35.2% and 36.9% of the total operating cost for 2020 and 2021, respectively.

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

As a result of the above, the Group's gross profit amounted to RMB568.6 million during the Reporting Period, increased by 7.5% from RMB528.8 million for the same period of 2020. Gross profit margin decreased from 43.9% for 2020 to 41.5% during the Reporting Period which was mainly due to the decrease in gross profit margin from the supply of tap water.

#### *5.4.1.3.1 Tap water supply*

##### Sales of tap water

During the Reporting Period, the gross profit of the Group for sales of tap water under tap water supply operations amounted to RMB59.2 million, decreased by 28.3% from RMB82.5 million for the same period of 2020. Its corresponding gross profit margin decreased from 23.7% for 2020 to 15.3% for the Reporting Period. Such decrease was mainly because in order to cope with the need of water supply, the infrastructure of the tap water plants and water supply pipelines was put into operation, which caused an increase in amortisation and depreciation.

##### Engineering installation

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB301.8 million, increased by 19.2% from RMB253.1 million for the same period of 2020. Its corresponding gross profit margin increased from 63.0% for 2020 to 64.3% during the Reporting Period. The increase was mainly due to the Group undertaking more commercial household meter installation projects with higher gross profit.

#### *5.4.1.3.2 Wastewater treatment*

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB187.1 million, increased by 10.2% from RMB169.7 million for the same period of 2020. The corresponding gross profit margin decreased from 40.5% for 2020 to 39.9% during the Reporting Period, which was essentially flat.

### **5.4.1.4 Other revenue**

During the Reporting Period, the Group's other revenue amounted to RMB34.5 million, increased by 55.1% from RMB22.3 million for the same period of 2020. The increase was mainly due to increase of amortisation of deferred income transferred from the water meter transformation projects (Phase I) in the central downtown.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### **5.4.1.5 Cost of sales**

During the Reporting Period, the Group's cost of sales amounted to RMB25.1 million, increased by 43.4% from RMB17.5 million for the same period of 2020. The increase was mainly due to the increase in staff wages, insurance fee and labor expenses.

### **5.4.1.6 Management expenses**

During the Reporting Period, the Group's management expenses amounted to RMB101.6 million, increased by 22.6% from RMB82.9 million for the same period of 2020. The increase was mainly due to increase in staff wages.

### **5.4.1.7 Finance costs**

During the Reporting Period, the Group's finance costs amounted to RMB120.0 million, increased by 12.6% from RMB106.6 million for the same period of 2020. The increase was mainly due to the new borrowings during the Reporting Period and the borrowing interests no longer capitalized and being expensed after the newly built tap water plants being put into operation, which caused an increase in the finance costs.

### **5.4.1.8 Income tax expense**

During the Reporting Period, the income tax expenses amounted to RMB46.3 million, increased by 7.7% from RMB43.0 million for the same period of 2020. As of 31 December 2020 and 2021, the actual tax rates of the Group were 14.1% and 15.1%, respectively. Such increase was mainly due to the effect of temporary differences.

### **5.4.1.9 Net profit and net profit margin**

Based on the above reasons, during the Reporting Period, the Group's net profit amounted to RMB261.0 million, which was basically in line with the same period of 2020. Net profit margin decreased from 21.7% for 2020 to 19.1% for the Reporting Period.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2 Analysis of Key Balance Sheet Items

#### 5.4.2.1 Accounts receivable

Accounts receivable of the Group were RMB345.2 million and RMB486.1 million as of 31 December 2020 and 2021, respectively. Such increase was mainly affected by the financial settlement ability of the government and overdue of the payment of wastewater treatment fee. In fact, we have always been strengthening the management of accounts receivable.

The table below sets forth the average turnover days of our accounts receivable during the indicated periods:

	For the years ended 31 December	
	2021	2020
Average turnover days of accounts receivable <sup>(1)</sup>	<u>109</u>	<u>94</u>

Note:

- (1) Average turnover days of accounts receivable:  $360/\text{number of accounts receivable turnover}$ ,  
number of accounts receivable turnover:  $\text{operating income}/\text{average balance of accounts receivable}$ .

During the Reporting Period, the average turnover days for accounts receivable increased from 94 days for 2020 to 109 days for the Reporting Period. The increase was mainly due to the increase in water and wastewater receivables as a result of financial payments.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.4.2.2 Inventories

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) were approximately RMB89.3 million and RMB53.7 million as of 31 December 2020 and 2021, respectively. The decrease was mainly due to a reduction in inventory reserves for projects under construction or proposed for construction.

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

	For the years ended 31 December	
	2021	2020
Average turnover days of inventory <sup>(2)</sup>	<u>32</u>	<u>36</u>

Note:

(2) Average turnover days of inventories:  $360/\text{number of inventories turnover}$ , number of inventories turnover:  $\text{operating cost}/\text{average balance of inventories}$ .

During the Reporting Period, the average inventory turnover days decreased from 36 days for 2020 to 32 days for the Reporting Period. The decrease was mainly due to the Group's enhanced inventory management to expedite the flow of inventories.

### 5.4.2.3 Other receivables

As of 31 December 2020 and 2021, the Group's other receivables were RMB52.1 million and RMB148.2 million, respectively. Such increase was mainly due to the increase in the receivables from the government for the water meter transformation projects (Phase I) in the central downtown.

### 5.4.2.4 Fixed assets

As of 31 December 2020 and 2021, the Group's fixed assets were approximately RMB2,718.6 million and RMB3,324.8 million, respectively. The increase mainly came from recognition of the newly built tap water plants, wastewater treatment plants, and pipe and network assets.

### **5.4.2.5 Construction in progress**

As of 31 December 2020 and 2021, the balance of construction in progress of the Group were approximately RMB924.1 million and RMB318.0 million, respectively. Such decrease was mainly due to newly built tap water plants, wastewater treatment plants and pipe and network assets were being recognized as fixed assets.

### **5.4.2.6 Intangible assets**

As of 31 December 2020 and 2021, the Group's intangible assets were approximately RMB978.1 million and RMB1,387.9 million respectively. Such increase was due to the PPP projects and all water supply projects in Jiangyang District were calculated based on intangible asset model.

### **5.4.2.7 Long-term deferred expenses**

As of 31 December 2020 and 2021, the Group's long-term deferred expenses were approximately RMB99.4 million and RMB238.1 million, respectively. Such increase was mainly due to the increase in water meter transformation projects (Phase I) in the central downtown.

### **5.4.2.8 Short-term borrowings**

As of 31 December 2020 and 2021, the Group's short-term borrowings were approximately RMB252.9 million and RMB239.3 million, respectively. Such decrease was mainly due to the repayment of bank borrowings.

### **5.4.2.9 Accounts payable**

As of 31 December 2020 and 2021, the Group's accounts payable were RMB651.9 million and RMB539.8 million, respectively. The decrease was mainly due to the settlement of accounts with various suppliers following the completion of the final accounts for the infrastructure and pipeline projects.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	For the years ended	
	31 December	2020
	2021	
Average turnover days of trade payables <sup>(3)</sup>	<u>268</u>	<u>327</u>

Note:

- (3) Average turnover days of accounts payables:  $360/\text{number of accounts payables turnover}$ , number of accounts payables turnover:  $\text{operating income}/\text{average balance of accounts payables}$ .

During the Reporting Period, the average turnover days for accounts payable decreased from 327 days for 2020 to 268 days for the Reporting Period. The decrease was mainly due to the completion and settlement of construction projects and timely payment for the works.

### 5.4.2.10 Contract liabilities

As of 31 December 2020 and 2021, the Group's contract liabilities were approximately RMB258.0 million and RMB194.0 million, respectively. Such decrease was mainly due to completion of the due performance of construction project contracts during the Reporting Period, and the settlement for construction projects.

### 5.4.2.11 Other payables

As of 31 December 2020 and 2021, the Group's other payables were approximately RMB170.4 million and RMB179.4 million, respectively. Such increase was mainly due to an increase in deposits and guarantees.

### 5.4.2.12 Non-current liabilities due within one year

As of 31 December 2020 and 2021, the Group's non-current liabilities due within one year were approximately RMB250.1 million and RMB927.4 million, respectively. Such increase mainly came from the RMB700 million corporate debts issued in 2019 that were to be due to repurchase within one year.

### 5.4.2.13 Long-term borrowings

As of 31 December 2020 and 2021, the Group's long-term borrowings were approximately RMB1,037.6 million and RMB1,390.7 million, respectively. Such increase was mainly due to an increase in borrowings for projects during the Reporting Period.



## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### **5.4.2.14 Long-term payables**

As of 31 December 2020 and 2021, the Group's long-term payables were approximately RMB626.0 million and RMB585.3 million, respectively. Such decrease was mainly due to the scheduled repayment of finance leases under sale and leaseback resulting in a decrease in lease payments payable.

### **5.4.2.15 Deferred income**

As of 31 December 2020 and 2021, the Group's deferred income were approximately RMB188.6 million and RMB268.6 million, respectively. Such increase was mainly due to increase in the government grants from the water meter transformation projects (Phase I) in the central downtown of Luzhou city.

## **5.4.3 Liquidity and Financial Resources**

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

As at the end of Reporting Period, the bank balances and cash of the Group amounted to approximately RMB871.7 million (at the end of 2020: approximately RMB1,036.2 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB3,142.6 million (at the end of 2020: RMB2,864.2 million), including bank and other borrowings, of which approximately 53.3% of these bank and other borrowings bear interest at floating rates, and short-term borrowings and non-current liabilities due within one year amounted to approximately RMB1,116.7 million, all of which were domestic RMB borrowings, and fixed-rate borrowings amounted to RMB1,468.5 million.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by equity attributable to owners of the Company divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 85.3% (at the end of 2020: 74.4%).

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.5 EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 1,178 employees (end of 2020: 1,142). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB182.9 million (2020: approximately RMB161.1 million). The remunerations and benefits, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continued to adjust the new model of salary packing system of the associates of the Company.

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

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

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with a value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. As at the end of the Reporting Period, HK\$400.8 million of the proceeds from the initial public offering had been fully used by the Group in the manner disclosed in the prospectus.

Please refer to the table below for details:

<b>Use of proceeds</b>	<b>Amount</b> HK\$ million	<b>Amount used</b> HK\$ million	<b>Amount unused</b> HK\$ million
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	40.08	–
<b>Total</b>	<b>400.8</b>	<b>400.8</b>	<b>–</b>

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.7 MAJOR ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group had no material acquisitions and disposals in respect of subsidiaries, associates and joint ventures.

### 5.8 PLEDGED ASSETS OF THE GROUP

As at the end of the Reporting Period, the Group had secured bank borrowings secured by the operating concessions for all water supply projects of the Company in Jiangyang District, several buildings and tap water plants of Weiyuan Qingxi Water, and the charging right for wastewater treatment projects of Fanxing Environmental in townships and rural areas in Jiangyang District, Luzhou City.

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

### 5.9 FOREIGN EXCHANGE RISKS

During the Reporting Period, the Group carried out business in the PRC and received revenue and paid its costs/expenses in RMB. As at the end of the Reporting Period, the Group had unutilized monetary funds in Hong Kong dollar, and confirmed that there was no foreign exchange gains during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

### 5.10 CONTINGENT LIABILITIES

During the Reporting Period, in the course of performance of the Cooperation Agreement for Wastewater Treatment Equipment Supply and Installation in the Townships and Rural Areas in Luzhou City entered into between Fanxing Environmental and Sichuan Changjiang Engineering Crane Co., Ltd. (四川長江工程起重機有限公司) (“**Changqi Company**”), dispute related to contract price arose between both parties due to the quality of equipment supplied by Changqi Company not meeting contract stipulation. The bankruptcy administrator of Changqi Company has filed a lawsuit on behalf of Changqi Company, seeking payment of RMB42.82 million and liquidated damages of RMB17.15 million, as well as litigation costs from Fanxing Environmental.

## CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 5.11 SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB55.30 million (2020: approximately RMB56.46 million), which mainly represents the Group's equity investment of 12.72% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.\* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC.

Information on Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. is set out in Note 8 to the consolidated financial statements of this report.

### 5.12 EVENTS AFTER REPORTING PERIOD

Save as disclosed in this annual report, the Group did not have other significant events after the Reporting Period.

### 5.13 OTHER MATTERS

In response to the COVID-19 pandemic, the Chinese Government took mandatory quarantine measures, and the region where the Company is located was identified as a low-risk region. The Company fully implemented the Government's various decisions and arrangements to ensure the safe water supply and wastewater discharge meeting the standards. The Board believes that the COVID-19 pandemic has had basically no impact on the audited annual financial statements of the Group for the Reporting Period.

# CHAPTER VI DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## 6.1 EXECUTIVE DIRECTORS

During the Reporting Period, the biographical details of the Directors, Supervisors and the senior management of the Company are set out below:

### 6.1.1 Executive Directors

**Mr. Zhang Qi (張岐先生)**, aged 48, joined the Group in 1992. As of the date of this report, Mr. Zhang served as an executive Director, the chairman of the Board, the legal representative, the secretary of the Party Committee and the chairman of strategy committee of the Company. He is primarily responsible for the overall operation of the Board, strategic development and planning and major decision making of the Group. He has also served as the director of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015, and the chairman of the Board of Directors of Xinglu Wastewater Treatment since March 2022.

Mr. Zhang has more than 29 years of experience in the wastewater treatment and tap water supply services industries. He joined Luzhou City Tap Water Co., Ltd.\* (瀘州市自來水總公司) (“**Luzhou Tap Water**”) as a worker in January 1992, then he served as a section chief assistant of business section from May 1998 to July 1999, as a vice section chief of business section from July 1999 to March 2001, and as a deputy general manager from March 2001 to July 2002. He served as the vice chairman of the Board and the general manager of Xinglu Water Company Limited from July 2002 to December 2005, served as the chairman of the Board and the general manager of Xinglu Water Company Limited from December 2005 to December 2006 and served as the general manager of the Company from December 2006 to March 2016, and a member of the Party Committee of Xinglu Investment from August 2009 to June 2017. He also served as the general manager and the executive director of Luzhou Jiangyang Wastewater Treatment Co., Ltd.\* (瀘州市江陽污水處理有限公司), which is currently known as Luzhou Xinglu Wastewater Treatment Co., Ltd.\* (瀘州市興瀘污水處理有限公司) (“Xinglu Wastewater Treatment”) from December 2003 to May 2005, as the chairman of the board of directors of Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.\* (瀘州市興瀘水務(集團)北郊水業有限公司) (“Beijiao Water”) from August 2004 to May 2015, and as director of Xinglu Investment from March 2008 to January 2022. He was re-appointed as the chairman of the board of directors and the legal representative of Xinglu Wastewater Treatment from September 2015 to March 2016, and a director of Sichuan Xinhuoju Chemical Co., Ltd.\* (四川新火炬化工責任有限公司) from November 2017 to March 2022.

Mr. Zhang graduated from Sichuan University of Construction Workers\* (四川省建築職工大學) in Chengdu, the PRC, majoring in industrial and civil construction in July 1994 and then obtained a master's degree majoring in business administration from Southwestern University of Finance and Economics\* (西南財經大學) located in Chengdu, the PRC, in July 2007, and obtained a master's degree majoring in business administration. From September 1998 to December 2000, he studied in the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) majoring in law. Mr. Zhang obtained the qualification as senior engineer granted by Personnel Department of Sichuan Province\* (四川省人事廳) in September 2009.

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

**Mr. Liao Xingyue (廖星樾先生)**, aged 40, joined the Group in December 2015. During the Reporting Period, Mr. Liao served as an executive Director, and the general manager of the Company, mainly responsible for the Group's daily operation matters.

Mr. Liao has nearly 12 years of experience of municipal infrastructure planning, investment, construction and management. Before joining the Group, Mr. Liao served as a clerk\* (辦事員) in Lu County Construction Bureau\* (瀘縣建設局) from September 2009 to May 2010, and served in Lu County Housing and Urban-rural Planning and Construction Bureau\* (瀘縣住房和城鄉規劃建設局) as the deputy director of general office from May 2010 to August 2013 and as the chief of personnel department from July 2011 to August 2013. He then served as an officer\* (科員) and the vice chief of inspection section\* (監督科), successively, in Luzhou Municipal Urban Planning Administration Bureau\* (瀘州市城市規劃管理局) from August 2013 to December 2014 and served as the chief of urban planning and construction section\* (城市建設科) in Luzhou Municipal Housing and Urban and Rural Construction Bureau\* (瀘州市住房和城鄉建設局) from December 2014 to December 2015.

Mr. Liao graduated from Tongji University in Shanghai, the PRC, with a bachelor's degree, a master's degree and a doctor's degree majoring in geological engineering in July 2003, May 2006 and May 2009, respectively.

**Mr. Wang Junhua (王君華先生)**, aged 57, joined the Group in April 2001. During the Reporting Period, he served as an executive Director, and a deputy general manager of the Company, and he resigned from these positions on 12 November 2021. Mr. Wang is mainly responsible for production and the management of technology information.

Mr. Wang has more than 35 years of experience in the tap water supply and wastewater treatment services industries. He started his career in Luzhou City Anfu Water and Electronic Supply Co., Ltd.\* (瀘州市安富供水供電公司) in March 1986. He then served as an assistant manager of Luzhou Tap Water and Xinglu Water Company Limited from April 2001 to September 2002. During this period, Mr. Wang joined Naxi Water and served as the deputy manager from June 2001 to July 2002 and as the manager of Naxi Water from July 2002 to December 2009, and as the chairman of the board of directors of Naxi Water from January 2006 to June 2011. He was appointed as a Director and a deputy general manager of Xinglu Water Company Limited in December 2006 and January 2010, respectively. He also served as the chairman of the board of Jiangnan Water from October 2011 to February 2018, as supervisor of Luzhou Traffic Investment Group Co., Ltd.\* (瀘州市交通投資集團有限公司) from July 2011 to July 2017, as the chairman of the board of Hejiang Water from April 2013 to February 2017, as the chairman of the board of Nanjiao Water from December 2013 to February 2014, as the chairman of the board of Sitong Engineering from August 2013 to May 2015, and as the chairman of the board of Sitong Design from March 2013 to November 2015. He served as the chairman of Xingxu Water from October 2018 to June 2021 and the chairman of Leshan Xingjia from December 2018 to December 2020. He served as a director of Xinglu Wastewater Treatment from September 2014 to November 2021.

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

Mr. Wang graduated from Sichuan University in Chengdu, the PRC, majoring in philosophy in July 1989, and from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) in Chengdu, the PRC, majoring in law in December 2005. Mr. Wang then graduated from Southwest Communications University\* (西南交通大學) in Chengdu, the PRC, majoring in business administration in March 2012. Mr. Wang obtained the qualification as a senior administration engineer granted by professional evaluation leading group for enterprise ideological and political personnel in Sichuan province\* (四川省企業思想政治工作人員專業職務評定工作領導小組) in November 2009.

### 6.1.2 Non-Executive Directors

**Mr. Chen Bing (陳兵先生)**, aged 51. During the Reporting Period, Mr. Chen served as a non-executive Director, and the chairman of the strategy committee of the Company. He concurrently acted as deputy general manager of Xinglu Investment, the chairman of the board of Xinglu Investment Fund Management Co., Ltd.\* (瀘州市興瀘投資基金管理有限公司), the executive director and general manager of Luzhou Xinglu Financial Leases Co., Ltd.\* (瀘州市興瀘融資租賃有限公司), the chairman of the board of directors and legal representative of Luzhou Rural Development, Investment and Construction Co., Ltd.\* (瀘州市農村開發投資建設有限公司), a director of Luzhou City Chengnan Construction Investment Co., Ltd.\* (瀘州市城南建設投資有限公司), Luzhou China Resources Xinglu Gas Co., Ltd.\* (瀘州華潤興瀘燃氣有限公司), and Chuantie (Luzhou) Railway Co., Ltd.\* (川鐵(瀘州)鐵路有限責任公司). He also serves as a director and the general manager of Luzhou Traffic Investment Group Co., Ltd.\* (瀘州市交通投資集團有限責任公司).

Mr. Chen has over 26 years of experience of corporate management. Before joining the Group, Mr. Chen served in Sichuan Luzhou Investment Co., Ltd.\* (四川省瀘州投資公司) as the deputy manager and the manager of securities department from October 1995 to May 1997 and from May 1997 to July 2001 respectively. He served as the manager of investment department of Luzhou City Infrastructure Investment Co., Ltd.\* (瀘州市基礎建設投資有限公司) from July 2001 to July 2004. He then served positions in Xinglu Investment as the manager of investment department from August 2004 to December 2006, as an assistant general manager from December 2006 to July 2010, as the manager of engineering department from November 2008 to July 2009, and was promoted as the deputy general manager in July 2010. He also served as the general manager and chairman of board of directors of Xinglu Wastewater Treatment from May 2005 to December 2007 and from June 2005 to September 2015 respectively. He served as a supervisor of South Sichuan Interurban Railway Co., Ltd.\* (川南城際鐵路有限責任公司) from July 2014 to January 2019, as a director of Luzhou Port Bonded Logistics Co., Ltd.\* (瀘州臨港保稅物流有限公司) from September 2013 to February 2018, as the chairman of the supervisors committee of Sichuan Xuda Railway Limited\* (四川敘大鐵路有限責任公司) from April 2013 to October 2019 and of Longma Xingda Petty Loan Co., Ltd.\* (龍馬興達小額貸款股份有限公司) from December 2011 to September 2019, and a director of Luzhou City Infrastructure Investment Co., Ltd.\* (瀘州市基礎建設投資有限公司) from December 2013 to February 2021.

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

Mr. Chen graduated from Zhengzhou Institute of Aeronautical Industry Management\* (鄭州航空工業管理學院) located in Zhengzhou, the PRC, majoring in operation management in July 1992, then graduated from Party College of Sichuan Province\* (中共四川省委黨校) in Chengdu, the PRC, in June 2004, and then obtained an executive master of business administration from Southwestern University of Finance and Economics\* (西南財經大學) located in Chengdu, the PRC, in January 2011. Mr. Chen has been accredited as an assistant economist by Planning Committee of Luzhou City\*(瀘州市計劃委員會) in April 1994 and obtained the certificate as a drainage engineer granted by Personnel Department of Sichuan Province\* (四川省人事廳) in July 2010.

**Ms. Xu Yan (徐燕女士)**, aged 56, joined the Group in December 2014. During the Reporting Period, she served as a non-executive Director of the Company.

Ms. Xu has 26 years of experience of accounting and financial management. Before joining the Group, Ms. Xu served as the financial manager of Luzhou Laojiao Hotel\* (瀘州老窖大酒店) from December 1995 to December 1996, as the chief of financial of the Luzhou Laojiao Automobile Transportation Company\* (瀘州老窖汽車運輸公司) from January 1997 to December 1998, as the financial executive of the third branch of Luzhou Laojiao Co., Ltd.\* (瀘州老窖股份有限公司三公司) from January 1999 to November 2000, and then she served many positions in Luzhou Laojiao, as a financial staff from December 2000 to April 2004, as the financial executive, the deputy director of financial center and the director of financial center of Luzhou Laojiao from May 2005 to October 2015 successively. Ms. Xu has also served as the chairman of the board of directors of Longma Xingda Petty Loan Co., Ltd. from December 2011 to February 2017. Ms. Xu served as general manager and assistant to president of Luzhou Laojiao Financial Center from July 2011 to October 2020 and director of Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司) from December 2012 to June 2019.

Ms. Xu graduated from Southwestern University of Finance and Economics\* (西南財經大學) in Chengdu, the PRC, majoring in accounting in December 1992 and from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) majoring in accounting finance in December 1999. Ms. Xu obtained the qualification as senior international finance manager granted by International Financial Management Association in November 2011.

**Mr. Xie Xin (謝欣先生)**, aged 45, joined the Group in September 2017. During the Reporting Period, he served as non-executive Director and a member of audit committee of the Company since September 2017. Mr. Xie also served as the president of Beikong Shifang (Shifang) Environmental Protection & Bio-Energy Group Ltd.\* (北控十方(十方)環保能源集團有限公司).



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

Mr. Xie served as manager of the decoration engineering company of Chongqing Taixing Technology Development Co., Ltd. from June 1998 to December 2000, deputy general manager of Chongqing Jufu Investment Holding Group Co., Ltd.\* (重慶聚富投資控股集團有限公司) from January 2000 to December 2010 and served many positions in the group at the same time during this period. Mr. Xie served as the general manager of Sichuan Shouxin Industrial Co., Ltd.\* (四川首信實業有限公司) from January 2011 to January 2015, the general manager of the Sichuan comprehensive business region of Beijing Enterprises Water Group from July 2015 to April 2017. He served as assistant president of Beijing Enterprises Water Group and the general manager of the Central Business Region from April 2017 to March 2019. He also served as the executive vice president of Sichuan Jin Yu Car City (Group) Co., Ltd. from March 2019 to May 2019.

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

### 6.1.3 Independent Non-Executive Directors

**Mr. Gu Ming'an (辜明安先生)**, aged 56. During the Reporting Period, he served as an independent non-executive Director, and the chairman of the nomination and remuneration committee and a member of the audit committee of the Company. He concurrently acted as a professor in Southwestern University of Finance and Economics\* (西南財經大學). Mr. Gu has also served as independent non-executive director of Chengdu Hi-Tech Development Co., Ltd.\* (成都高新發展股份有限公司) (stock code: 000628). He currently also serves as an independent non-executive director of Luzhou Bank Co., Ltd. (瀘州市銀行股份有限公司) (stock code: 1983). He has been serving as an independent non-executive director of Sunway Co., Ltd. (尚緯股份有限公司) (stock code: 603333) since December 2020, and an independent supervisor of Sichuan Wangcang Rural Commercial Bank Co., Ltd. (四川旺倉農村商業銀行股份有限公司) since December 2020.

Mr. Gu has 32 years of experience in teaching and research. Mr. Gu worked in Chengguang Chemical Research Institute of Chemical Industry Ministry\* (化工部成光化工研究院) from July 1989 to July 1993, and then he worked at Sichuan Institute of Chemical Industry\* (四川輕化工學院) (currently known as Sichuan University of Science and Engineering\* (四川理工學院)) from July 1993 to July 1999. Mr. Gu started to serve positions in Southwestern University of Finance and Economics\* (西南財經大學) from July 1999, and was engaged as an associate professor and a professor in 2002 and 2008, respectively. He also served as an independent non-executive director of Sichuan Renzhi Oilfield Technology Services Co., Ltd. (四川仁智油田技術服務股份有限公司) (currently known as Zhejiang Renzhi Co., Ltd., stock code: 002629) from August 2014 to September 2016. He served as an independent non-executive director of 四川創意技術信息股份有限公司 (currently known as Troy Information Technology Co., Ltd., stock code: 300366) from December 2015 to January 2022.

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

Mr. Gu graduated from Southwest China Normal University\* (西南師範大學) in Chongqing, the PRC, with a bachelor's degree majoring in law in July 1989 and graduated from Southwestern University of Political Science and Law\* (西南政法大學) in Chongqing, the PRC, with a master's degree majoring in law in July 1999, then Mr. Gu graduated from Southwestern University of Finance and Economics\* (西南財經大學) in Chengdu, the PRC, with a doctor's degree in 2008.

**Mr. Lin Bing (林兵先生)**, aged 53. During the Reporting Period, he served as independent non-executive Director, and a member of the strategy committee of the Company.

Mr. Lin has over 31 years of experience in the engineering field. Mr. Lin served in Zigong Academy of Urban Planning and Design\* (自貢市城市規劃設計研究院) from July 1990 to December 2004, as an engineer, the deputy director of municipal office, the director of the chief engineer office, the assistant to the president and the vice president, successively. Mr. Lin then has served in Zigong Academy of Urban Planning and Design Co., Ltd.\* (自貢市城市規劃設計研究院有限責任公司) as the vice president and president, successively, since January 2005 and December 2011, respectively, and served as the vice chairman of the board of directors of Zigong Academy of Urban Planning and Design Co., Ltd. from December 2011 to December 2017. Mr. Lin served as general manager in Zigong Academy of Urban Planning and Design Co., Ltd.\* (自貢市城市規劃設計研究院有限責任公司) from January 2015 to December 2020 and served as Chairman in Zigong Academy of Urban Planning and Design Co., Ltd.\* (自貢市城市規劃設計研究院有限責任公司) from January 2018 to December 2020 and a professor in Sichuan University of Science and Engineering\* (四川理工學院) from March 2014 to December 2019.

Mr. Lin graduated from Chongqing Construction Engineering College\* (重慶建築工程學院) in Chongqing, the PRC, majoring in environmental engineering in July 1990. Mr. Lin obtained the qualification as the registered consulting engineer granted by Personnel Department of Sichuan Province\* (四川省人事廳) in August 2008, as the registered public facility engineer (water supply and drainage professional) granted by the Ministry of Housing and Urban-rural Department\* (中華人民共和國住房和城鄉建設部) in September 2010, and as the registered urban planner granted by the Ministry of Housing and Urban-rural Department\* (中華人民共和國住房和城鄉建設部) in August 2013. Mr. Lin was appointed as the bidding evaluation expert by People's Government of Sichuan Province (四川省人民政府) in June 2015 and as a member of legislative advisory group of People's Congress Standing Committee of Zigong City\* (自貢市人大常委會立法諮詢組) in May 2016. He was appointed as a member of the Decision Consultant Committee of Zigong Municipal Government of Zigong Municipal Committee of the CPC in August 2019.

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

**Mr. Cheng Hok Kai, Frederick (鄭學啟先生)**, aged 58. During the Reporting Period, he served as our independent non-executive Director, the chairman of the audit committee and a member of the nomination and remuneration committee of the Company since 31 March 2017. Mr. Cheng concurrently has been serving as an independent non-executive director of CIMC Vehicles (Group) Co., Ltd.\* (中集車輛(集團)股份有限公司) (stock code: 1839.HK) since 26 June 2019. Mr. Cheng serves as an independent non-executive director, chairman of audit committee and member of nomination committee of Jiaxing Gas Group Co., Ltd. (嘉興市燃氣集團股份有限公司) (stock code: 9908.HK) since 16 July 2020. He serves as an independent non-executive director and chairman of the audit committee of China Shun Ke Long Holdings Limited (中國順客隆控股有限公司) (stock code: 974.HK) since 5 August 2020.

Mr. Cheng has extensive experience in business, finance and accounting management. Prior to joining the Group, from 1985 to 1988, Mr. Cheng worked as an audit assistant and senior accountant of Pricewaterhouse (currently known as PricewaterhouseCoopers), an accounting firm in Hong Kong, where he was primarily responsible for audit assignments for various companies. From 1997 to 2004, Mr. Cheng was the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited, a company principally engaged in designing, developing, and marketing semiconductors and storage systems, focused in the storage, communication, and consumer markets, where he was primarily responsible for finance and accounting function for the operation in Asia Pacific and Japan. From 2004 to 2006, he was the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd., a company principally engaged in providing software and hardware design solutions for electronic design automation, where he was primarily responsible for the finance and accounting function of the operation in the Pacific Rim. From 2006 to 2008, he worked as the finance director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., a company principally engaged in providing 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng then joined PuraPharm International (H.K.) Ltd. as chief financial officer in 2010, then served as company secretary, authorized representative, managing director of corporate finance and investment of PuraPharm Corporation Ltd. (stock code: 1498.HK). Mr. Cheng resigned from the above positions on 31 January 2018. Mr. Cheng joined Sanyuan Health Industry Group Co., Ltd. (stock code: 1889.HK) as an executive director from May 2019 to October 2019.

Mr. Cheng obtained his bachelor's degree in finance and accounting from the University of Salford in the United Kingdom in July 1985, and his master's degree in accounting from the University of New South Wales in Australia in May 1992. Mr. Cheng was admitted as a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 1992 and April 1992, respectively. Mr. Cheng became fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia in January 2004 and March 2003, respectively. Mr. Cheng was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in April 1995 and a member of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) in December 1996. Mr. Cheng became a fellow member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia in June 2012 and November 2013, respectively.

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

### 6.1.4 Supervisors

**Ms. Qu Mei (屈梅女士)**, aged 53, joined the Group in May 2007. During the Reporting Period, she served as the chairperson of Supervisory Committee and a shareholder representative Supervisor. Ms. Qu concurrently served as employee supervisor of Xinglu Investment, director and supervisor and secretary of general party branch of Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司).

Ms. Qu has 20 years of experience of corporate management. Before joining the Group, Ms. Qu served in the auto control department of Southwestern Chemical Research Institute\* (西南化工研究院) from July 1989 to May 1998, and then served in Sichuan Luzhou Investment Co., Ltd.\* (四川省瀘州投資公司) from June 1998 to July 2001. Ms. Qu then served as the deputy director of general manager office of Luzhou Infrastructure from July 2001 to March 2006, and was appointed as the manager of human resource department of Xinglu Investment from March 2006 to March 2016. Ms. Qu also served as the manager of audit department of Xinglu Investment from January 2009 to October 2009. She was appointed as manager of the party affairs department of Xinglu Investment from March 2016 to September 2017, served as supervisor of Luzhou Communications Investment from April 2016 to July 2017 and supervisor of Luzhou Xinglu Lantian Market Management Co., Ltd. (瀘州市興瀘藍天市場管理有限公司) from November 2008 to November 2017. She served as supervisor of Luzhou Xinglu Financing Guarantee Co., Ltd. (瀘州市興瀘融資擔保有限公司) from January 2016 to January 2019.

Ms. Qu graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) in December 2002. Ms. Qu has obtained the human resource management expert granted by Ministry of Labour and Social Security\* (中華人民共和國勞動和社會保障部) in June 2006.

**Mr. Xu Ke (徐可先生)**, aged 40, joined the Group in December 2015. During the Reporting Period, he served as a shareholder representative Supervisor.

He has served as general manager assistant of the legal affair center of Luzhou Laojiao since November 2015 and was responsible for legal affairs. He also served as director of Luzhou Hailizi Cross Border E-commerce Co., Ltd.\* (瀘州海蠣子跨境電子商務股份有限公司) and supervisor of Luzhou Yanxitang Folk Hotel Management Co., Ltd.\* (瀘州燕溪堂民俗酒店管理有限公司) as well as director of Sichuan China Spirit Products Exchange Center Co., Ltd. (四川中國白酒產品交易中心有限公司).

Mr. Xu served in People's Court of Jiangyang District, Luzhou City\* (瀘州市江陽區人民法院) from September 2000 to March 2012, and as a legal counsel\* (法務專員) in Luzhou Alcohol Concentration Development Area Co., Ltd.\* (瀘州酒業集中發展區有限公司) from April 2012 to June 2014. He served as a supervisor of Luzhou Laojiao Group from April 2018 to February 2022.

Mr. Xu graduated from Peking University\* (北京大學) majoring in law (online course) in July 2005.

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

**Ms. Huang Mei (黃梅女士)**, aged 53, joined the Group in December 1987. During the Reporting Period, Ms. Huang served as an employee representative Supervisor. She concurrently serves as the chairman of the Labour Union of the Company and secretary of discipline committee of the Company since 2002 and 2016, respectively, as a supervisor of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015, and the general secretary of the Party Committee Secretary of Xinglu Wastewater Treatment since March 2022.

Ms. Huang served as a worker in Luzhou Tap Water Nanjiao Plant from December 1987 to February 1991. She served as a Labour Union assistant and a vice secretary of Youth League branch from March 1991 to March 1998, as the secretary of Communist Youth League branch from January 1997 to June 2002, as a member of Party Committee from November 1998 to June 2002, and as the vice chairman of the Labour Union from April 1998 to June 2002. From July 2002 to March 2016, she served as a vice secretary of Party Committee of the Company and concurrently served as a deputy general manager of the Company from March 2008 to November 2009, the head and a supervisor of materials supply department of the Company from December 2014 to September 2015 and from March 2016 to March 2022. She served as supervisor of Beijiao Water from April 2008 to February 2018 and the chairman of the board of directors of Naxi Water from April 2013 to February 2018. She served as the chairman of the Supervisory Committee and a supervisor of Xinglu Wastewater Treatment from September 2014 to November 2018 and from November 2018 to March 2022.

Ms. Huang graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) majoring in law in December 1999. She obtained the qualification as a senior administration engineer granted by professional evaluation leading group for enterprise ideological and political personnel in Sichuan province\* (四川省企業思想政治工作人員專業職務評定工作領導小組) in November 2009.

**Ms. Xiang Min (向敏女士)**, aged 50, joined the Group in September 1989. She has served as an employee representative Supervisor since July 2016 and as a Director of the Board office since June 2021. She has concurrently served as the director of Xinglu Wastewater Treatment since September 2014 and as the chairman of the Board of Xingxu Water since June 2021.

Ms. Xiang has 25 years of experience of human resource management. Ms. Xiang served as a meter reader and a toll collector at the business department of Luzhou City Tap Water Company\* (瀘州市自來水公司) from September 1989 to April 1996, as an operator and a chief officer\* (主辦) at the labour and capital department of Luzhou Tap Water from May 1996 to May 2002. She then acted as the head of human resource department of the Company from July 2002 to March 2015, as a director of the Company from December 2009 to June 2016, as the general manager assistant of the Company from January 2013 to July 2015, and as the head of political and labour department of the Company from July 2013 to December 2013. She served as a supervisor of Luzhou Industrial Development Investment Group Co., Ltd.\* (瀘州產業發展投資集團有限公司, formerly Luzhou Industrial Investment Group Co., Ltd.\* (瀘州工業投資集團有限公司)) from March 2015 to January 2022, the chairman of the board of directors and party branch secretary of Sitong Engineering from May 2015 to February 2018 and from May 2015 to December 2017 respectively, the director of the office of the Company from July 2015 to October 2017, the head of the office of the Board of the Company from November 2017 to June 2019 and the manager of the party masses work department of the Company from June 2019 to June 2021.

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

Ms. Xiang graduated from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China\* (中共四川省委黨校函授學院) in December 1999 and from Southwest Jiaotong University\* (西南交通大學), majoring in business administration in June 2006. She obtained the qualification as the human resource economist of intermediate level conferred by Ministry of Personnel (中華人民共和國人事部) in November 2000 and the qualification of the first class of human resources manager conferred by Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部) in February 2009.

**Mr. Zhu Yuchuan (朱玉川先生)**, aged 59, joined the Group in April 1984. During the Reporting Period, he served serves as an employee representative Supervisor.

In April 1984, Mr. Zhu started his career in Luzhou Tap Water and served several positions in several plants of Luzhou Tap Water. He served as the vice section chief of business section and deputy manager of urban supply section of the Company from July 1995 to April 2010. He then acted as the manager in Beijiao Water from June 2011 to October 2011, and as the manager in Jiangnan Water from October 2011 to December 2014. He served as the manager of the technology department of the Company from December 2014 to October 2017. He served as the manager of the technology information department of the Company from October 2017 to August 2020.

Mr. Zhu graduated from Sichuan Province Cadre Correspondence School\* (四川省幹部函授學院) majoring in corporate management and economic law in June 2002 and from Sichuan College of Architectural Technology\* (四川建築職業技術學院) in Deyang, the PRC, majoring in building construction and management in January 2007. Mr. Zhu obtained the qualification as drainage engineer granted by Personnel Department of Sichuan Province\* (四川省人事廳) in January 2003.

**Mr. Xuan Ming (宣明先生)**, aged 51. During the Reporting Period, he served as an external Supervisor since 31 March 2017. Mr. Xuan concurrently served as the director of Sichuan Mayflower Law Firm\* (四川五月花律師事務所).

Mr. Xuan has 16 years of experience in legal practice. Mr. Xuan started to act as a lawyer in Sichuan Mayflower Law Firm\* (四川五月花律師事務所) from September 2005.

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

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

**Mr. Xiong Hua (熊華先生)**, aged 38. Mr. Xiong has served as an external Supervisor since 31 March 2017. Mr. Xiong concurrently has served as the director of Sichuan Changxin Accounting Firm Co., Ltd.\* (四川長信會計師事務所有限公司) since January 2008.

Mr. Xiong has 13 years of experience of accounting. He served as a cashier and an accountant in finance department of Luzhou Huitong Department Store Co., Ltd.\* (瀘州匯通百貨股份有限公司) from April 2007 to January 2008.

Mr. Xiong graduated from Sichuan Management College\* (四川管理職業學院) in Chengdu, the PRC, majoring in accounting computerisation in December 2005, and graduated from Xichang University (西昌學院), majoring in engineering management in June 2016. Mr. Xiong obtained the certificate of certified public accountant granted by the MoF in October 2008, the qualification of semi-senior accountant granted by Personnel Department of Sichuan Province \* (四川省人事廳) in October 2009, the qualification of registered tax agent granted by Sichuan Provincial Human Resources and Social Security Department\* (四川省人力資源和社會保障廳) in October 2011, and the certificate of certified public valuer granted by the MoF in December 2011.

### 6.1.5 Secretary of the Board

**Mr. Chen Yongzhong (陳永忠先生)**, aged 48, joined the Group in December 2012 and serves as our secretary to the Board and company secretary, as well as a director of Xinglu Wastewater Treatment. Mr. Chen is primarily responsible for assisting the chairman of the Board to deal with daily operations of the Board and legal auditing.

Mr. Chen has over 24 years of experience of accounting and financing. Before joining the Group, Mr. Chen served in teaching position in Luzhou Finance and Economic School\* (瀘州市財經學校) from August 1997 to May 2009. Mr. Chen served as a deputy manager of financial department of Xinglu Investment from August 2009 to December 2014. Mr. Chen subsequently joined the Group and served as the chief financial officer of the Company from December 2012 to December 2017. He also served as the chief financial officer of Xinglu Wastewater Treatment from August 2012 to September 2016 and the chairman of Weiyuan Qingxi Water and Weiyuan Installation Company from September 2018 to October 2019.

Mr. Chen graduated from Chengdu Meteorological Institute\* (成都氣象學院) in Chengdu, the PRC, with a bachelor's degree majoring in accounting in June 1997. Mr. Chen was accredited as a midlevel accountant by MoF in May 2002, has passed the All Required Subjects of The National Uniform CPA Examination of the PRC in December 2007, obtained the qualification for registered tax agent granted by Sichuan Province Professional Title Reforming Leading Group\* (四川省職稱改革工作領導小組) in September 2009 and was registered as a member of Chartered Accountant Association of Sichuan Province\* (四川省註冊稅務師協會) in November 2011, and accredited as senior accountant by Human Resources and Social Security of Sichuan Province\* (四川省人力資源和社會保障廳) in June 2012, successively. Mr. Chen obtained the qualification as senior international finance manager granted by International Financial Management Association in February 2013.

### 6.1.6 Senior Management

**Mr. Xiao Tao (肖陶先生)**, aged 38, currently serves as the deputy general manager of the Company, responsible for safety and environmental protection, production technology management and network security and assisting the general manager in external investment.

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

Mr. Xiao majored in traffic road management from Sichuan Police College (四川員警學院) in July 2004 and obtained a master's degree in agricultural promotion from Sichuan Agricultural University (四川農業大學) in 2016.



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

**Mr. Chen Xuejie (陳學傑先生)**, aged 57, has served as deputy general manager of the Company since August 2017 and was responsible for marketing services, general affairs and quality system work.

Mr. Chen served as several positions such as reporter and editor of Luzhou Radio Station\* (瀘州廣播電台) from March 1986 to January 1995, successively as reporter, editor, director, deputy editor in-chief, editor-in-chief, president and secretary of Luzhou Radio and TV News\* (瀘州廣播電視報社) from January 1995 to September 2008. Then he served as general manager assistant and manager of the safety management department of Luzhou Guohua Asset Management Co., Ltd.\* (瀘州市國華資產經營管理有限公司), and served as deputy general manager from July 2009 to August 2013.

Mr. Chen served as executive director, general manager and other positions of Luzhou Hongyang Guangsha Real Estate Development Co., Ltd.\* (瀘州市鴻陽廣廈房地產開發有限公司) (changed its name to “Luzhou Industrial Investment Huarui Real Estate Development Co., Ltd.”) from August 2013 to April 2016, as executive director and general manager of Chengdu Luzhou Hotel Co., Ltd.\* (成都瀘川酒店有限責任公司) from October 2014 to August 2017, as executive director and general manager of Luzhou State-owned Assets Management Co., Ltd. from April 2016 to August 2017 and as executive director and general manager of Luzhou Industrial Investment International Tendering Co., Ltd.\* (瀘州工投國際招標有限責任公司) from May 2017 to August 2017.

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

**Mr. Ouyang Peng (歐陽鵬先生)**, aged 47, joined the Group in September 2013 and serves as the chief financial officer and manager of the accounting department of the Company, mainly responsible for financial management and material supply management of the Company. He serves as an executive director of Luzhou Sitong Engineering since 30 January 2019. He is executive director of Naxi Water since 14 February 2019. He also concurrently serves as a supervisor of Luzhou Xingxin Water Environmental Governance Co. Ltd..

Before joining the Group, Mr. Ouyang worked in the integrated management section of the finance department of Lutianhua (Group) Co., Ltd.\* (瀘天化(集團)有限責任公司) from July 1998 to February 2002. Then he served as deputy chief of the finance section of Lutianhua Huajian Company\* (瀘天化化建公司) from February 2002 to January 2007, as deputy director of the finance department of Sichuan Lutianhua Hongxu Engineering Construction Co., Ltd.\* (四川瀘天化弘旭工程建設有限公司) from February 2007 to September 2013 (during this period, he served as director of the finance department of Sichuan Lutianhua Jingzheng Technology Detection Co., Ltd.\* (四川瀘天化精正技術檢測有限公司) from April 2009 to March 2012 concurrently and as deputy director of the finance department of Sichuan Chemical Holdings (Group) Chengdu Engineering Branch\* (四川化工控股(集團)成都工程分公司) from February 2012 to August 2013). Thereafter, he served as assistant director of the finance department of Luzhou Xinglu Water Co., Ltd. from November 2013 to March 2014, as deputy director of the finance department of Luzhou Xinglu Water Co., Ltd. from March 2014 to July 2016 and as director of the finance department of the Company from July 2016 to October 2017. He also served as the chief of the finance section of Sitong Engineering from September 2013 to December 2017 and as deputy general manager of Sitong Engineering from April 2014 to January 2018 concurrently. He served as chairman of Sitong Engineering from February 2018 to January 2019.

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

### 6.1.7 Joint Company Secretaries

**Mr. Chen Yongzhong (陳永忠先生)**, aged 48, has served as the company secretary since August 2016. He concurrently served as the secretary to the Board. For his biographical details, please refer to “Secretary of the Board” in this section.

**Ms. Ng Wing Shan (吳詠珊女士)**, served as one of our joint company secretaries from July 2016 to the Reporting Period. During the Reporting Period, Ms Ng served as the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, mainly responsible for assisting listed companies in professional company secretarial work. Ms. Ng is a fellow member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

During the Reporting Period, Mr. Chen Yongzhong and Ms. Ng Wing Shan were the joint company secretaries of the Company. Since 4 March 2022, Ms. Ng Wing Shan resigned as a joint company secretary of the Company, and Mr. Chen Yongzhong continues to remain and act as the sole company secretary of the Company.

### 6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the date of this report, changes in Directors, Supervisors and senior management of the Company are as follows:

#### 6.2.1 Changes in Directors

On 12 November 2021, Mr. Wang Junhua resigned as an executive Director and a deputy general manager of the Company due to change in employment with effect from that date.

On 4 March 2022, as approved at the first extraordinary general meeting of 2022, Mr. Zhang Qi and Mr. Liao Xingyue were re-elected as executive Directors of the second session of the Board, Mr. Chen Bing was re-elected as a non-executive Director of the second session of the Board, Mr. Yu Long and Ms. Hu Fenfen were appointed as non-executive Directors of the second session of the Board, and Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo were appointed as independent non-executive Directors of the second session of the Board. On the same day, as considered by the employee representative congress of the Company, Ms. Huang Mei was appointed an employee representative Director and an executive Director of the second session of the Board. Their respective terms of office will commence on 4 March 2022 and expire at the end of the second session of the Board.

Since 4 March 2022, with the exception of Mr. Zhang Qi, Mr. Liao Xingyue and Mr. Chen Bing, who were re-elected as Directors of the second session of the Board, the other Directors of the first session of the Board will no longer serve as Directors, of which, Ms. Xu Yan and Mr. Xie Xin will cease to be non-executive directors and Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick will cease to be independent non-executive directors.

As approved at the first meeting of the second session of the Board, Mr. Zhang Qi, an executive Director, was appointed as the Chairman of the second session of the Board for a term commencing from 4 March 2022 until the expiry of the second session of the Board.

### 6.2.2 Changes in Supervisors

On 4 March 2022, as approved at the first extraordinary general meeting of 2022, Mr. Yang Zhenqiu and Mr. Lai Bingyou were appointed as shareholder representative Supervisors of the second session of the Supervisory Committee, Mr. Xiong Hua was re-elected as an external Supervisor of the second session of the Supervisory Committee, and Mr. Gu Ming'an was appointed as an external Supervisor of the second session of the Supervisory Committee. On the same day, as considered by the employee representative congress of the Company, Ms. Xiang Min was re-elected as an employee representative Supervisor of the second session of the Supervisory Committee, Mr. Luo Chaoping and Mr. Tang Nanyou were appointed as employee representative Supervisors of the second session of the Supervisory Committee. Their respective terms of office will commence on 4 March 2022 and expire at the end of the second session of the Supervisory Committee.

Since 4 March 2022, with the exception of Ms. Xiang Min and Mr. Xiong Hua, who were re-elected as Supervisors of the second session of the Supervisory Committee, the other Supervisors of the first session of the Supervisory Committee will no longer serve as Supervisors. Ms. Qu Mei and Mr. Xu Ke will cease to be shareholder representative Supervisors, Ms. Huang Mei and Mr. Zhu Yuchuan will cease to be employee representative Supervisors, and Mr. Xuan Ming will cease to be external Supervisor.

As approved at the first meeting of the second session of the Supervisory Committee, Mr. Yang Zhenqiu, a shareholder representative Supervisor, was appointed as the chairman of the second session of the Supervisory Committee for a term commencing from 4 March 2022 until the expiry of the second session of the Supervisory Committee.

### 6.2.3 Changes in senior Management

On 12 November 2021, Mr. Wang Junhua resigned as a deputy general manager of the Company due to change in employment, details of which are set out in the announcement of the Company dated 12 November 2021 published on the website of the Hong Kong Stock Exchange and the Company.

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

### 6.2.4 Basic information on Directors, Supervisors and senior Management

As of the date of this report, the basic information on the Directors, Supervisors and senior management of the Company are as follows:

Name	Gender	Age	Position
Zhang Qi	Male	48	Executive Director and chairman of the Board
Liao Xingyue	Male	40	Executive Director and general manager
Huang Mei	Female	53	Executive Director (employee representative Director)
Yu Long	Male	45	Non-executive Director
Chen Bing	Male	51	Non-executive Director
Hu Fenfen	Female	37	Non-executive Director
Ma Hua	Female	51	Independent non-executive Director
Liang Youguo	Male	61	Independent non-executive Director
Fu Ji	Male	56	Independent non-executive Director
Yang Zhenqiu	Male	47	Shareholder representative Supervisor and the chairman of the Supervisory Committee
Lai Bingyou	Male	31	Shareholder representative Supervisor
Xiang Min	Female	50	Employee representative Supervisor
Luo Chaoping	Male	47	Employee representative Supervisor
Tang Nanyou	Male	47	Employee representative Supervisor
Gu Mingan	Male	56	External supervisor
Xiong Hua	Male	38	External supervisor
Chen Yongzhong	Male	48	Secretary to the Board and company secretary
Xiao Tao	Male	38	Deputy general manager
Chen Xuejie	Male	57	Deputy general manager
Ouyang Peng	Male	47	Chief financial officer

Please refer to the section of “Directors, Supervisors and Senior Management” of this report, the circular of the Company dated 15 February 2022 and the announcement dated 4 March 2022 for details of the above-mentioned biographical details of the Directors and Supervisors of the Company.

# CHAPTER VII DIRECTORS' REPORT

## 7.1 PRINCIPAL BUSINESSES

The Group is an integrated operator primarily engaged in municipal water supply and wastewater treatment service. As at the end of the Reporting Period, the Group is a tap water supplier serving counties and certain towns in three districts and three counties of Luzhou, Weiyuan District of Neijiang and Leibo County in Liangshanzhou. It is also the only county-level domestic wastewater treatment service provider based in Luzhou serving cities and towns in three districts and two counties of the region, with domestic wastewater treatment services operating in Shizhong District of Leshan, European Industrial City in Qingbaijiang District, Chengdu and the industrial area of Dechang County, Liangshanzhou. We have secured from the relevant governments the exclusive concession rights to operate tap water supply service and wastewater treatment services covering the above areas.

## 7.2 RESULTS

The audited results of the Group during the Reporting Period are set out in consolidated income statement. The financial position of the Group at the end of the Reporting Period is set out in the consolidated balance sheet. The consolidated cash flows of the Group during the Reporting Period are set out in the consolidated statement of cash flows.

## 7.3 DIVIDEND POLICY AND FINAL DIVIDENDS

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

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

The payment of the dividend by the Company is also subject to the Companies Law of the People's Republic of China (the "**Company Law**"), the Listing Rules, the articles of association of the Company and any restrictions under any other applicable laws, rules and regulations. The Company shall seek opinions of the Shareholders, in particular, the minority shareholders, and independent non-executive directors as sufficiently as possible, prioritize a reasonable return to the investors while giving full consideration to the sustainable development of the Company. The Board will review and examine the Dividend Policy as appropriate from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

The Board proposed to distribute final dividends of RMB0.05 per Share (tax inclusive) for the year ended 31 December 2021 (2020: RMB0.06 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Monday, 11 July 2022 (the "**Record Date**") (subject to the approval of Shareholders on the annual general meeting to be held on Friday, 10 June 2022), with the total amount being approximately RMB42,990,000. Once approved, the final dividends will be paid on or before Friday, 29 July 2022.

Such proposed dividends will be dominated in RMB. Dividends for domestic shares will be paid in RMB, while dividend for H shares will be paid in Hong Kong dollars. The relevant exchange rate for conversion shall be calculated by the average central parity rate of the relevant foreign exchange posted by China Foreign Exchange Trading Centre for one calendar week immediately preceding the date of declaration of such dividend at the AGM.

During the Reporting Period, the Company is not aware of any shareholders who have waived or agreed to waive any dividend arrangements.

### 7.4 TAX RELIEF

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

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

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

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

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

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

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

### 7.5 ANNUAL GENERAL MEETING

We will convene the Annual General Meeting on Friday, 10 June 2022.

### 7.6 CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 31 May 2022 to Friday, 10 June 2022 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the Annual General Meeting is Tuesday, 31 May 2022. In order to be qualified to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Monday, 30 May 2022.

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 6 July 2022 to Monday, 11 July 2022 (both days inclusive), during which period no transfer of Shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Monday, 11 July 2022. In order to be qualified to obtain final dividends, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Tuesday, 5 July 2022.



## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.7 BUSINESS REVIEW

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

### 7.8 FINANCIAL SUMMARY

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

### 7.9 ENVIRONMENT POLICY AND PERFORMANCE

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

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

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

During the Reporting Period, the Company did not encounter any claims arising from the failure to comply with the relevant permit and environmental requirements. The Company's production was safe and environmental-friendly, with no non-compliance records.

### 7.10 COMPLIANCE WITH LAWS AND REGULATIONS

The Board believes the compliance with laws and regulations as the cornerstone of a business and attaches considerable importance to it. To the best knowledge of the Board, during the Reporting Period, the Company has complied with all applicable laws and regulations in the PRC in all material respects, and has also complied with the Listing Rules and the SFO.

### 7.11 MAJOR RISK FACTORS

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

#### 7.11.1 Market Expansion and Investment Risks

With respect to the business expansion in new regions, due to the strong barriers region wise of water supply market, local governments usually favor large-scale water enterprise outside the region under service with advantages in technology, capital and management to serve as the operators of municipal water supply plants. If business expansion cannot be carried out effectively, it will have a negative effect on the Company's revenue.

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

#### 7.11.2 Operation and Management Risks

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

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.11.3 Cost Control Risks

In recent years, the standards of energy, labour, raw materials and environmental quality have improved. In particular, according to the requirements of environmental protection, the increase in standard and capacity of wastewater treatment facilities will lead to a certain increase in the direct operating costs, which may adversely affect the financial condition of the Company.

We will take the following countermeasures: combine the construction of internal supervision system, further improve the operation management system and business processes; strengthen the management and construction of subordinate enterprises and continue to promote our refined management system; pay attention to employee training and improve their professional skills; and continue to explore core technologies through automation improvement and promotion of smart water meters for energy conservation and consumption reduction.

### 7.11.4 Safety and Environmental Protection Risks

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

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

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

### 7.11.5 Network Security Risks

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

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

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.11.6 Data Fraud and Theft

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

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

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

### 7.11.7 Policy Risks

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

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

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

## 7.12 KEY RELATIONSHIPS

### 7.12.1 Relationship with Employees

At the end of the Reporting Period, the Company had 1,178 employees in total. We believe that employees are valuable resources for our success, so the Group attaches great importance to the development of career paths of its staff and provides more comprehensive career training and development plan for all employees. During the Reporting Period, the staff skill rating was carried out and linked to the salary, which fully encouraged employees to upgrade their skills. We will provide new employees with training corresponding to their expected duties.

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

Pursuant to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and relevant national and local government regulations, we maintain a number of social security funds for our employees, including funds for basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, maternity leave insurance and housing provident fund.

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

### 7.12.2 Relationship with Customers

In tap water supply, our customers are mainly urban and rural residents, industrial and commercial users and other institutions in three districts and three counties of Luzhou, Weiyuan County and Leibo County. In wastewater treatment service, our customers are mainly local governments in three districts and four counties in Luzhou, towns in Shizhong District of Leshan, Qingbaijiang District and Dechang County of Chengdu.

The Group adheres to the service philosophy of "Refreshing the customer experience with true feelings and interpreting the harmony between human and water with actions" and maintaining a good relationship with its customers is very important to the long-term development of the Group. Therefore, the Group is committed to providing high quality services to its customers.

During the Reporting Period, the total amount of sales to the five largest customers of the Group was RMB382.55 million, accounting for 27.84% of the total amount of revenue for the Reporting Period, and the total amount of sales to the largest customer was RMB270.17 million, accounting for 19.66% of the total amount of revenue for the Reporting Period.

Our top five customers are independent third-party suppliers. During the Reporting Period, the Directors and the Supervisors, and their respective close associates, or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company as of the end of the Reporting Period) do not hold any interest in the top five customers of the Group. There is no such situation in the Company that our major customers are our suppliers at the same time.

### 7.12.3 Relationship with Suppliers

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

## CHAPTER VII DIRECTORS' REPORT (Continued)

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

During the Reporting Period, the total amount of procurement from the five largest suppliers of the Group was RMB101.11 million, accounting for 38.39% of the total amount of procurement for the Reporting Period. The purchase from the largest supplier was RMB57.35 million, accounting for 21.78% of the total amount of procurement for the Reporting Period. Our top five suppliers are independent third-party suppliers. During the Reporting Period, the Directors and the Supervisors, and their respective close associates, or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company) do not hold any interest in the top five suppliers of the Group.

### 7.13 SHARE CAPITAL

At the end of the Reporting Period, the number of the Company's total Shares was 859.71 million shares and the total share capital was RMB859.71 million, with RMB1.00 per share, of which, RMB644.77 million for Domestic Shares and RMB214.94 million for H Shares.

### 7.14 BOND ISSUANCE

Pursuant to the special resolutions passed at the 2018 first extraordinary general meeting of the Company held on 3 December 2018 in relation to to issue corporate bonds and authorize the Board or its authorized persons to deal with the matters in relation to the issue of the Corporate Bonds and the proposed public offering of corporate bonds to qualified investors. The Company received an approval issued by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2019] No. 272) dated 28 February 2019, approving the public offering of corporate bonds with an aggregate nominal value of not more than RMB700.00 million, to be issued by the Company in phases according to actual circumstances. For details, please refer to the announcements published by the Company dated 12 October 2018, 3 December 2018, 28 December 2018 and 7 March 2019, and the circular of the Company dated 19 October 2018.

The Company successfully issued the first tranche of corporate bonds in the principal amount of RMB500 million with a coupon rate of 5.99% per annum and a maturity of 5 years on 26 April 2019, and has been listed on the Shanghai Stock Exchange on 8 May 2019. For details, please refer to the announcements of the Company dated 29 April 2019 and 7 May 2019.

The Company successfully issued the second tranche of corporate bonds in the principal amount of RMB200 million with a coupon rate of 5% per annum and a maturity of 5 years on 23 September 2019, and has been listed on the Shanghai Stock Exchange on 10 October 2019. For details, please refer to the announcements of the Company dated 24 September 2019 and 9 October 2019.

## CHAPTER VII DIRECTORS' REPORT (Continued)

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

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

### 7.16 PRE-EMPTIVE RIGHTS

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

### 7.17 DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the changes in the Company's reserves during the Reporting Period are set out in the consolidated statement of changes in shareholders' equity, of which the reserves distributable to the Shareholders are also set out in the consolidated statement of changes in shareholders' equity.

### 7.18 PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the Reporting Period are set out in Note 6. 12 to the consolidated financial statements in this annual report.

### 7.19 BANK BORROWINGS AND OTHER BORROWINGS

Details of the Group's bank borrowings and other borrowings as at the end of the Reporting Period are set out in Note 6. 28 to the consolidated financial statements in this annual report.

### 7.20 DONATIONS

During the Reporting Period, the Group did not make any external donation (excluding employees' personal donation).

### 7.21 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### 7.21.1 Directors

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

The details of status of Directors are set out in "Directors, Supervisors and Senior Management" in this annual report.

#### 7.21.2 Supervisors

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

The details of status of Supervisors of the Company during the Reporting Period and as of the date of this report are set out in "Directors, Supervisors and Senior Management" in this annual report.

#### 7.21.3 Senior Management

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

The details of status of senior management of the Company during the Reporting Period and as of the date of this report are set out in "Directors, Supervisors and Senior Management" in this annual report.

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

Save as disclosed in the section of "Directors, Supervisors and Senior Management" in this annual report, there has been no change in the information of the Directors, Supervisors and chief executives of the Company.



## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.21.5 Biographies of the Directors, Supervisors and Senior Management

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

### 7.21.6 Service Contract of the Directors and Supervisors

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

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

### 7.21.7 Remuneration of Directors and Supervisors

The details of the remuneration of Directors and Supervisors of the Company are set out in Note 11(2).6 to the consolidated financial statements of this report.

### 7.21.8 Determination of and Basis for Determination of Remuneration of the Directors, Supervisors and Senior Management

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

### 7.21.9 Directors' and Supervisors' Rights to Acquire Shares or Bonds

During the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or bonds of the Company to any Directors or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.21.10 Directors' and Supervisors' Interests in Transactions, Agreements or Contracts

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

### 7.21.11 Directors' and Supervisors' Interests in Competing Business

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

### 7.21.12 Interests and Short Positions of Directors, Supervisors and Chief Executives in the Shares, Underlying Shares and Debentures

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executives had any interests and/or short positions in the Shares, and (in respect of positions held pursuant to equity derivatives) underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code to be notified to the Company and Hong Kong Stock Exchange.

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

To the best knowledge of the Company based on the public information, as at the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section, or owned interest and short positions in more than 5% of any class of issued shares of the Company:

## CHAPTER VII DIRECTORS' REPORT (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment* (興瀘投資) <sup>(2)</sup>	Beneficial owner	Domestic Shares	511,654,127(L)	79.35%	59.51%
	Interest in a controlled corporation	Domestic Shares	62,709,563(L)	9.73%	7.29%
Luzhou Laojiao* (瀘州老窖)	Beneficial owner	Domestic Shares	70,406,310(L)	10.92%	8.19%
Luzhou Infrastructure* (瀘州基建) <sup>(2)</sup>	Beneficial owner	Domestic Shares	62,709,563(L)	9.73%	7.29%
Beijing Enterprises Water Group Limited <sup>(3)</sup>	Beneficial owner	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Holdings Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Group Company Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd. <sup>(4)(7)</sup>	Beneficial owner	H Shares	19,247,000(L)	8.95%	2.24%
Sichuan Development Holding Co., Ltd. <sup>(4)</sup>	Interest in a controlled corporation	H Shares	19,247,000(L)	8.95%	2.24%
Suntront Intelligence (Hong Kong) Co., Ltd. <sup>(5)</sup>	Beneficial owner	H Shares	16,884,000(L)	7.86%	1.96%
Suntront Tech Co., Ltd. <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000(L)	7.86%	1.96%
Fei Zhanbo (費戰波) <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000(L)	7.86%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd. (瀘州向陽房地產開發有限公司) <sup>(6)(7)</sup>	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Luzhou Xiangyang Enterprise Group Co., Ltd. (瀘州向陽企業集團有限公司) <sup>(6)</sup>	Interest in a controlled corporation	H Shares	14,635,000(L)	6.81%	1.70%
Yang Lunfen (楊倫芬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%

## CHAPTER VII DIRECTORS' REPORT (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Wang Xiumei (王秀梅) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Yang Bin (楊彬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao Trust Co., Ltd. <sup>(7)</sup>	Trustee	H Shares	77,787,000(L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	19,247,000(L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000(L)	6.81%	1.70%

- (1) As at the end of the Reporting Period, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position.
- (2) Xinglu Investment has 61.70% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Luzhou Infrastructure.
- (3) Beijing Enterprises Water Group Limited is held by Beijing Enterprises Environmental Construction Limited as to 41.13%, which is in turn wholly-owned by Beijing Enterprises Holdings Limited, which is held as to 41.13% by Beijing Enterprises Group (BVI) Company Limited, as to 100% by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.
- (4) Sichuan Development Holding Co., Ltd has 100% interests in Sichuan Development Asset Management Investment Management Co., Ltd., and Sichuan Development Asset Management Investment Management Co., Ltd. has 100% interests in Sichuan Sans Venture Capital Co., Ltd.. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd is deemed to be interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.
- (5) Suntront Tech Co., Ltd has 100% interests in Suntront Intelligence (Hong Kong) Co., Ltd. Fei Zhanbo has 35.68% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Fei Zhanbo and Suntront Tech Co., Ltd are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Ltd.
- (6) Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司) has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產發展有限公司). Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed to be interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd.

## CHAPTER VII DIRECTORS' REPORT (Continued)

- (7) Sichuan Sans Venture Capital Co., Ltd holds a total of 19,247,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Luzhou Xiangyang Real Estate Development Co., Ltd holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; and Yang Bin holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd, acting as the trustee for the above-mentioned trusts, is deemed to be interested in the aggregate 77,787,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

### 7.23 SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the requirements under the Listing Rules that at least 25% of the total issued share capital of the Company are held in public hands during the Reporting Period and as of the date of this report.

### 7.24 EQUITY-LINKED AGREEMENT

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

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

Details about the IPO and the use of proceeds from the IPO as at the end of the Reporting Period are set out in the section headed "Initial Public Offering and Use Of Proceeds from the Initial Public Offering" in "Management Discussion and Analysis" of this annual report.

### 7.26 MANAGEMENT CONTRACT

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

### 7.27 MATERIAL CONTRACTS

On 24 September 2021, the Company entered into an equity transfer agreement with Xinglu Investment, pursuant to which the Company transferred its equity interest in Luzhou Traffic Investment Group Co., Ltd.\* (瀘州市交通投資集團有限責任公司) to Xinglu Investment at a consideration of RMB1.1 million.

On 9 December 2021, Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the land transfer agreement with Xinglu Investment, pursuant to which Xinglu Investment agreed to transfer the use right of the Target Land to Xinglu Wastewater Treatment at a consideration of RMB30.8 million.

Details of the above contracts are set out in “Continuing Connected Transactions and Connected Transactions” in this chapter.

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

### 7.28 CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

During the Reporting Period, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, wastewater treatment operating service, meter installation and other services. These transactions are conducted in the ordinary course of the Group's business on normal or better commercial terms comparable to those with other entities that are not state-owned. Besides, the Group has established its pricing strategy and approval process for purchase and sales of goods, investments and service. Such pricing strategy approval processes are applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of the opinion that, as set out in “Related Parties and Related Party Transactions” in Note 11 to the consolidated financial statements of this report, none of these transactions are related party transactions that require separate disclosure under the Listing Rules except for the transactions with the controlling shareholders of the Company (which is also controlled by the PRC government) and its subsidiaries (controlled or significantly affected by the same controlling shareholder).

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28.1 Provision of Tap Water Supply Services

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

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

### 7.28.2 Provision of Installation Services

The Group has been providing installation services (including water quality testing after installation) in its ordinary and usual course of business to the certain connected persons of the Company (including the Controlling Shareholder and its subsidiaries). During the Reporting Period, the provision of installation services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules. The installation services provided by Group to its connected persons are conducted in the ordinary and usual course of the Group's business and on normal commercial terms that are identical or no more favorable than those offered to independent third-party manufacturers. The Company has also complied with the approval procedures and disclosure requirements under Chapter 14A of the Listing Rules.

On 28 January 2021, the Company entered into a construction services supplemental agreement with Luzhou Aviation Development Investment Group Co., Ltd.\* (瀘州航空發展投資集團有限公司) ("**Luzhou Aviation Development**") to adjust the term of the construction service agreement entered into between the Company and Luzhou Aviation Development Company on 19 June 2020 to run from 10 February 2021 to 31 December 2021, with other terms remaining unchanged. No consideration was paid/payable under the supplemental agreement. The construction fees under the construction services agreement and its supplemental agreement do not exceed RMB19.6 million. The Company provided services to Luzhou Aviation Development Company for the "Kongtian Experts Residential Community North and South Areas\*(空天專家社區北區及南區)" water supply installation project phase I, Aviation Three Road\* (航空三路) intersection water supply pipelines relocation project and Luzhou Kongtian Power Industrialization Project (瀘州空天動力產業化項目) phase I water supply pipelines installation project located in Longmatan District of Luzhou City. Luzhou Aviation Development Company is directly held by Xinglu Investment, the Controlling Shareholder, as to approximately 83.78%. Accordingly, Luzhou Aviation Development Company is a connected person of the Company under the Listing Rules and the transactions contemplated under the Supplemental Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 28 January 2021.

## CHAPTER VII DIRECTORS' REPORT (Continued)

On 26 February 2021 and 27 August 2021, the Company entered into the Xinglu Jutai Construction Service Agreement with Luzhou Xinglu Jutai Construction Company Limited (瀘州興瀘居泰建設有限公司) (“**Xinglu Jutai Construction**”), pursuant to which, the Company agreed to provide water supply pipelines construction and installation services to Xinglu Jutai Construction, the transaction amounts were RMB7 million and RMB0.31 million, respectively, with a construction period of 90 calendar days and 20 calendar days and will end on or before 31 December 2021. Xinglu Jutai Construction is wholly owned by Luzhou Xinglu Jutai Real Estate Co., Ltd.\* (瀘州興瀘居泰房地產有限公司) (“**Jutai Real Estate**”), which is a 30%-controlled company (as defined in the Listing Rules) of Xinglu Investment, the Controlling Shareholder. Accordingly, Xinglu Jutai Construction is a connected person of the Company under the Listing Rules and the transactions under the Xinglu Jutai Construction Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For details, please refer to the announcements of the Company dated 26 February 2021 and 27 August 2021.

On 2 June 2021, the Company entered into the Construction Service Agreement with Xinglu Investment, pursuant to which, the Company agreed to provide water supply pipelines installation services to Xinglu Investment, the transaction amount was RMB6 million, with a construction period of 90 calendar days and will end on or before 31 December 2021. Xinglu Investment is the Controlling Shareholder of the Company. Accordingly, Xinglu Investment is a connected person of the Company under the Listing Rules and the transactions under the Xinglu Investment Construction Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 2 June 2021.

On 30 June 2021 and 31 August 2021, the Company entered into the Luzhou Lingang Industrial Development Construction Service Agreement with Luzhou Lingang Industrial Development Co., Ltd.\* (瀘州臨港產業開發有限公司) (“**Lingang Industrial Development**”), respectively, pursuant to which, the Company agreed to provide water supply pipelines installation services to Lingang Industrial Development, the transaction amounts were RMB5.4 million and RMB5.7 million, respectively, with a construction period of 90 calendar days and will end on or before 31 December 2021. Lingang Industrial Development is wholly owned by Luzhou Lingang Investment Group Co., Ltd.\* (瀘州臨港投資集團有限公司) (“**Lingang Investment**”). Lingang Investment is directly held as to approximately 66% by Xinglu Investment, the Controlling Shareholder. Accordingly, Lingang Industrial Development is a connected person of the Company under the Listing Rules and the transactions under the Lingang Industrial Development Construction Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For details, please refer to the announcements of the Company dated 30 June 2021 and 31 August 2021.



## CHAPTER VII DIRECTORS' REPORT (Continued)

On 27 August 2021, the Company entered into the Luzhou Jiaotou Car Station Construction Service Agreement with Luzhou Jiaotou Group Car Station Construction Co., Ltd.\* (瀘州交投集團汽車站點建設有限公司) (“**Luzhou Jiaotou Car Station**”), pursuant to which, the Company agreed to provide water supply pipelines installation services to Luzhou Jiaotou Car Station, the transaction amount was RMB1.111 million, with a construction period of 90 calendar days and will end on or before 31 December 2021. Luzhou Jiaotou Car Station is indirectly held as to approximately 49.37% by Xinglu Investment, the Controlling Shareholder. Luzhou Jiaotou Car Station is a connected person of the Company under the Listing Rules and the transactions under the Luzhou Jiaotou Car Station Construction Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 27 August 2021.

### 7.28.3 Transfer of shareholding

On 24 September 2021, the Company entered into an Equity Transfer Agreement with Xinglu Investment, pursuant to which, the Company transferred the equity it held in Luzhou Traffic Investment Group Co., Ltd.\* (瀘州市交通投資集團有限責任公司) to Xinglu Investment at a consideration of RMB1.1 million. Xinglu Investment is the Controlling Shareholder. Xinglu Investment is a connected person under the Listing Rules and the transaction under the Equity Transfer Agreement constitute connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios for the transactions under the Equity Transfer Agreement are less than 0.1%, the Equity Transfer Agreement and the transactions thereunder constitute de minimis connected transactions under Rule 14A.76 of the Listing Rules and are therefore exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

### 7.28.4 Transfer of land use rights

On 9 December 2021, Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the Land Transfer Agreement with Xinglu Investment, pursuant to which, Xinglu Investment agreed to transfer use right of the Target Land to Xinglu Wastewater Treatment at a consideration of RMB30.8 million. Xinglu Investment is the Controlling Shareholder. Xinglu Investment is a connected person under the Listing Rules and the transaction under the Land Use Right Transfer Agreement constitute connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. The Company has also complied with the disclosure requirements under Chapter 14A of the Listing Rules. As the percentage ratios applicable to the transactions under the Land Use Right Transfer Agreement exceed 0.1% but are less than 5%, the Land Use Right Transfer Agreement and the transactions thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement.

### 7.28.5 Property Lease

On 30 June 2014, the Company entered into a Property Leasing Agreement with Luzhou City Xinglu Assets Management Co., Ltd., pursuant to which, the Company used and occupied the property located on the 1st and 5th to 9th floors of No. 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC, with a gross floor area of approximately 5,989 square meters at nil consideration for a term from 30 June 2014 to 29 June 2017. On 1 July 2017, the Company renewed the Property Leasing Agreement with Luzhou City Xinglu Assets Management Co., Ltd. for a term from 1 July 2017 to the date of completion and occupation of the Company's office building.

In December 2021, the Company entered into a Housing Leasing Agreement with Luzhou City Xinglu Assets Management Co., Ltd., to lease premises comprise the property located on the 1st and 5th to 9th floors of No. 16 Baizi Road, Jiangyang District, and No. 4, Building 8, Zhangjiaci South Road, Shidong Town, Longmatan District. The lease area has a gross floor area of 4,586.22 square meters and the rent is RMB600,000 per year for a term from 1 January 2019 to 31 December 2021 with automatic renewal for another year upon expiry if both parties do not disagree.

Luzhou City Xinglu Assets Management Co., Ltd. is wholly-owned by Xinglu Investment, a controlling shareholder. Accordingly, Luzhou City Xinglu Assets Management Co., Ltd. is a connected person of the Company under the Listing Rules and the transaction under the Property Leasing Agreement and the Housing Leasing Agreement constitute connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. The Company has also complied with the relevant requirements under Chapter 14A of the Listing Rules. For the transaction, the applicable percentage ratios are less than 0.1% and the transaction constitutes a minimum continuing connected transaction under Rule 14A.76 of the Listing Rules and therefore the transaction is exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

## CHAPTER VII DIRECTORS' REPORT (Continued)

### 7.28.6 Property management

On 15 June 2018, Xinglu Wastewater Treatment, a subsidiary of our Company, entered into a property management service contract with Luzhou Xinglu Property Management Co., Ltd. ("**Xinglu Property Management**"). Pursuant to which, Xinglu Property Management agreed to provide property management services to Xinglu Wastewater Treatment for a term commencing from the date of signing the contract until 31 May 2020. Such contract was renewed on 19 June 2020 and the term of service was renewed to 31 May 2022. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment of the Controlling Shareholder of the Company, it is regarded as a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transactions between the Group and Xinglu Property Management constitute continuing connected transactions of the Company. The Company has also complied with the relevant requirements under Chapter 14A of the Listing Rules. During the Reporting Period, the total amount of relevant property management fees paid by Xinglu Wastewater Treatment was RMB3.896 million.

### 7.28.7 Confirmation from independent non-executive directors and auditors of the company

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

- (1) entered into in the ordinary and usual course of business of the Group;
- (2) carried out in normal commercial terms or better; and
- (3) carried out according to the relevant transaction agreements, the terms of which are fair and reasonable, and in the interests of the Shareholders as a whole.

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

- (1) have not been approved by the Company's board of directors;
- (2) these involved transactions in relation to the Group's provision of products and services, which were not executed in accordance with pricing policies of the Company in all material aspects;

## CHAPTER VII DIRECTORS' REPORT (Continued)

- (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- (4) have exceeded the annual caps set by the Company.

### 7.29 COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Controlling Shareholder signed a non-competition agreement (the “**Non-competition Agreement**”) on 10 March 2017, in favour of the Company. Pursuant to the Non-competition Agreement, the Controlling Shareholder has irrevocably undertaken to the Company that it would not, and would procure that its subsidiaries would not, directly or indirectly, engage in any relevant business that may be in competition with the Company. Non-competition business refers to all business lines of the Group operated currently and to be operated from time to time in the future, which includes but not limited to tap water supply and wastewater treatment services. For details, please refer to the section headed “Relationship with our Controlling Shareholder” in the Prospectus of the Company.

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

The independent non-executive Directors have reviewed the information provided by the Controlling Shareholder regarding compliance with the Non-competition Agreement and determined that the Controlling Shareholder had fully complied with and was not in breach of the Non-competition Agreement during the Reporting Period.

### 7.30 COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees of the Group. The Company had adopted the Corporate Governance Code, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

## CHAPTER VII DIRECTORS' REPORT (Continued)

According to code provision A.4.2 (which has been re-numbered as B.2.2 of Part 2 of the code provision with effect from 1 January 2022 and is hereinafter expressed under the new numbering), under the Corporate Governance Code every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of association, the terms of Directors (including non-executive Director and independent Director) are three years, but extendible by election. The term of the first session of the Board has expired in December 2018. Non-employee representative Directors of the second session of the Board were re-elected and appointed at the general meeting of the Company convened on 4 March 2022 and employee representative Directors were appointed at an employee representative meeting of the Company. For details, please refer to the section headed "Directors, Supervisors and Senior Management" in this report and the announcements of the Company dated 26 January 2022 and 4 March 2022 respectively published on the websites of the Hong Kong Stock Exchange and the Company.

During the Reporting Period, save for B.2.2 of Part 2 of the code provision, the Company has been complied with all code provisions under the Corporate Governance Code.

### 7.31 PERMITTED INDEMNITY PROVISIONS

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

### 7.32 SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, in the course of performance of the Cooperation Agreement for Wastewater Treatment Equipment Supply and Installation in the Townships and Rural Areas in Luzhou City signed between Fanxing Environmental and Changqi Company, dispute related to contract price arose between both parties due to the quality of equipment supplied by Changqi Company not meeting contract stipulation. The bankruptcy administrator of Changqi Company has filed a lawsuit on behalf of Changqi Company, seeking payment of RMB42.82 million and liquidated damages of RMB17.15 million, as well as litigation costs from Fanxing Environmental. The case is currently being processed.

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

### 7.33 AUDIT COMMITTEE

As of the date of this report, the audit committee of the Company (the “**Audit Committee**”) consists of three independent non-executive Directors, namely Mr. Fu Ji, Mr. Liang Youguo and Ms. Ma Hua, with Mr. Fu Ji serving as the chairperson of the committee. The primary responsibilities of our Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company’s website and the website of the Hong Kong Stock Exchange. The Audit Committee has reviewed the consolidated financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

### 7.34 EVENTS AFTER THE REPORTING PERIOD

Details of the events after the Reporting Period of the Group are set out in “Management Discussion and Analysis” of this annual report.

### 7.35 AUDITOR

Upon approval at the annual general meeting of the Company for 2020 convened on 11 June 2021, Deloitte Touche Tohmatsu was appointed as the international auditors of the Company for the year 2021 to hold office until the conclusion of the next annual general meeting of the Company and the Board was authorized to fix their remuneration.

Upon approval at the second extraordinary general meeting of the Company for 2021 convened on 28 December 2021, the Company’s auditor for 2021 was changed from Deloitte Touche Tohmatsu to ShineWing Certified Public Accountants LLP which shall hold office until the conclusion of the next annual general meeting of the Company and the Board was authorized to fix their remuneration. For details, please refer to the announcements of the Company dated 9 December 2021 and 28 December 2021 respectively and the circular of the Company dated 10 December 2021.

Deloitte Touche Tohmatsu has confirmed in writing that there are no matters relating to the proposed change of auditor that need to be brought to the attention of the Shareholders. The Board also confirms that it is not aware of any matters relating to the proposed change of auditor that need to be brought to the attention of the Shareholders. The Board and the audit committee of the Company also confirm that there is no disagreement between the Company and Deloitte Touche Tohmatsu in relation to the proposed change of auditor.

## CHAPTER VII DIRECTORS' REPORT (Continued)

ShineWing Certified Public Accountants LLP is recognized by the Ministry of Finance of the People's Republic of China and the China Securities Regulatory Commission and is qualified to serve as the reporting accountant for mainland incorporated companies listed in Hong Kong. Upon approval at the second extraordinary general meeting of the Company for 2021, ShineWing Certified Public Accountants LLP became the sole auditor of the Company auditing the consolidated financial statements of the Group prepared in accordance with CASBE, and also undertook the role of international auditor of the Company.

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

*Chairman of the Board*

**Zhang Qi**

Luzhou, the PRC

30 March 2022

# CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT

## 8.1 COMPOSITION OF THE SUPERVISORY COMMITTEE

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

The details of status of Supervisors of the Company during the Reporting Period and as of the date of this report are set out in "Directors, Supervisors and Senior Management" in this annual report.

## 8.2 WORK OF THE SUPERVISORY COMMITTEE

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

### 8.2.1 Attendance of Board Meetings and Significant Meetings

During the Reporting Period, the Supervisory Committee observed the Board meetings and important economic work meetings to supervise over the general meeting and the Board's decision-making process and the compliance, understand directly and indirectly the operation status of the Company, and gave their opinions and proposals whenever appropriate, so as to promote the healthy development of the Company and protect the interest of the Shareholders.

### 8.2.2 Meetings of the Supervisory Committee

During the Reporting Period, attendance of members of the Supervisory Committee is recorded as follows:

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



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

### 8.2.3 Supervision Over Operation

During the Reporting Period, the Supervisory Committee convened the meetings of Supervisory Committee to consider and approve the annual report for the year ended 31 December 2020, interim report and results announcement for the six months ended 30 June 2021 and other proposals, so as to keep abreast of the business condition of the Company in a timely manner.

### 8.2.4 Supervision Over Financial Operation

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

### 8.2.5 Supervision Over Performance of Duties by Directors and Senior Management

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

### 8.2.6 Strengthen the Internal Governance of the Supervisory Committee

As of the date of this report, the Supervisory Committee re-elected and appointed members of Supervisory Committee for the new term in accordance with the Company Law and the Articles of Association of the Company to give full play the supervisory role of the Supervisory Committee and improve its performance.

## 8.3 BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS OF THE COMPANY IN 2021

### 8.3.1 Evaluation on the work of the Board

Aiming at protecting the interest of the Company and the Shareholders in practice, the Supervisory Committee of the Company performed its supervisory duties diligently. The Supervisory Committee observed all the Board meetings in 2021 and confirmed the contents of the meetings convened by way of communication. The Supervisory Committee considers that the convening of Board meeting, the qualification of participants and the decision-making procedures met requirements of the Company Law and the Articles of Association, and that the resolutions made were valid and effective. It effectively supervised over the implementation of various resolutions by the Board to ensure the execution of the resolutions; in the meantime, the Board duly executed all resolutions approved by the general meeting, exercised its rights granted under the law and by the Shareholders. There was no behavior that undermined the interest of the Company and the Shareholders; there was no operation that was in breach of rules and regulations.

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

### 8.3.2 Evaluation on the work of the operation team

The Supervisory Committee conducted supervision on the production and operation activities of the Company during their term of office and considers that, the operation team of the Company has diligently performed its duties, executed all the resolutions of the Board conscientiously, and had no irregularity in the course of operation. In 2021, led by the Board, the operation team of the Company adhered to the overriding principles of “principal operations plus expansion and extension” and focused on the principal operations while making smooth progress in material projects, vertical business extension and innovative technologies to maintain good services to the public and safe operation. The Company is well positioned to grow steadily.

## 8.4 SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE MATTERS OF THE COMPANY IN 2021

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

In accordance with laws and regulations of the country and the relevant requirements of the Articles of Association and after review, the Supervisory Committee is in the position that, decision-making procedures of the Company during the Reporting Period were in compliance with laws; the Company has established a complete and effective internal control system. The general meetings and Board meetings were convened in accordance with procedures required by relevant laws and regulations and the Articles of Association, and relevant resolutions were valid and effective; the senior management performed their duties in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company and did not act in a manner prejudicial to the interests of the Company and its shareholders.

### 8.4.2 Evaluation on financial operation

In 2021, having carefully review on the financial system, internal control system and the financial position of the Company, the Supervisory Committee believes that the existing internal control system on financial accounting is complete, the Company has a sound financial positions, high-quality assets, and true and accurate recognition and measurement of income, expenses and profit. The auditors, SHINEWING CPA Limited conducted an audit of the Company's financial information in accordance with the established plan, judging that accounting report of the Company met requirements of Accounting Standard and gave a true, accurate and complete view of the Company's financial position, operating results and cash flows.

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

### 8.4.3 Evaluation on related parties and related party transactions of the Company

In 2021, connected transactions between the Company and connected persons are all subject to the approval by regulations of the Articles of Association and the Listing Rules of the Hong Kong Stock Exchange and fulfilled their disclosure duties in a timely manner. In the course of consideration and voting of the connected transactions in 2021, the Supervisory Committee did not find any insider trading and behavior that undermined the interest of the Company and Shareholders, and the Supervisory Committee is of its opinion that the connected transactions of the Company were fair, just and open, and the pricing basis is sufficient, did not undermine the interest of the Company (particularly the interest of minority shareholders).

### 8.4.4 Evaluation on internal control and risk management

In 2021, having reviewed the internal control and risk management system of the Company during the Reporting Period, the Supervisory Committee believes that the Company has built a complete internal control and risk management system and has had an effective execution, and that the Company has an appropriate deployment for the internal audit department and relevant personnel, which plays the role of supervising the execution of internal control.

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

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

**Yang Zhenqiu**

*Chairperson of the Supervisory Committee*

Luzhou, the PRC  
30 March 2022

# CHAPTER IX CORPORATE GOVERNANCE REPORT

## 9.1 COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

According to the code provision A.4.2 (re-numbered as B.2.2 of Part 2 of the code provision with effect from 1 January 2022, the following is expressed under the new numbering) under the Corporate Governance Code, each director (including directors with a specified term) shall be subject to retirement by rotation, at least once every three years. According to the Articles of Association, the Directors (including non-executive Directors and independent non-executive Directors) shall serve for a term of three years and shall be reelected upon expiration of their term of office. The term of the first session of the Board of the Company expired in December 2018. Non-employee representative Directors of the second session of the Board were re-elected and appointed at the general meeting of the Company convened on 4 March 2022 and employee representative Directors were appointed at an employee representative meeting of the Company. For details, please refer to the section headed “Directors, Supervisors and Senior Management” in this report and the announcements of the Company dated 26 January 2022 and 4 March 2022 respectively published on the websites of the Hong Kong Stock Exchange and the Company.

Except for the code provision B.2.2 of Part 2 under the Corporate Governance Code, the Company has complied with all the code provisions as set out in the Corporate Governance Code. The Board will review the Company’s corporate governance practices and operations from time to time in order to comply with the relevant requirements of the Listing Rules.

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

The Company has adopted the Model Code as the code of conduct regarding securities transactions of the Company by the Directors, supervisors and employees of the Group who, by reason of their office or employment, may have inside information about the Group or the Company’s securities. The Company has made specific inquiries to all Directors and supervisors, and all Directors and supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance with the Model Code by the relevant employees during the Reporting Period.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.3 BOARD OF DIRECTORS

#### Composition of the Board

As of the date of this report, the Board comprises nine Directors, including three executive Directors (including one employee representative director), three non-executive Directors and three independent non-executive Directors.

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

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

### 9.4 DUTIES AND POWERS OF THE BOARD

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

### 9.5 CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

The Board is responsible for formulating corporate governance policies and fulfilling corporate governance obligations, which include, among others: (1) to develop and review the Company’s corporate governance system and practices and to make recommendations accordingly; (2) to review and monitor the training and continuous professional development of Directors and senior management; (3) to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements; (4) to review and supervise the compliance of the Directors and employees of the Company and its subsidiaries with the required standards as set out in the Model Code; (5) to review the compliance with the Corporate Governance Code of the Company and disclose in the corporate governance report prepared in accordance with requirements of the Listing Rules.

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

### 9.6 DUTIES AND POWERS OF THE MANAGEMENT

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

### 9.7 INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

### 9.8 CHAIRMAN OF THE BOARD AND GENERAL MANAGER

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

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

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

### 9.9 NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

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

The term of each independent non-executive Director is the same as that of other Directors. At the expiration of their terms, they may continue to serve if re-elected, but they may not serve more than six years in succession. Upon expiration of the term of office, the re-election may be made, but the term of re-election shall not exceed six (6) years.

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

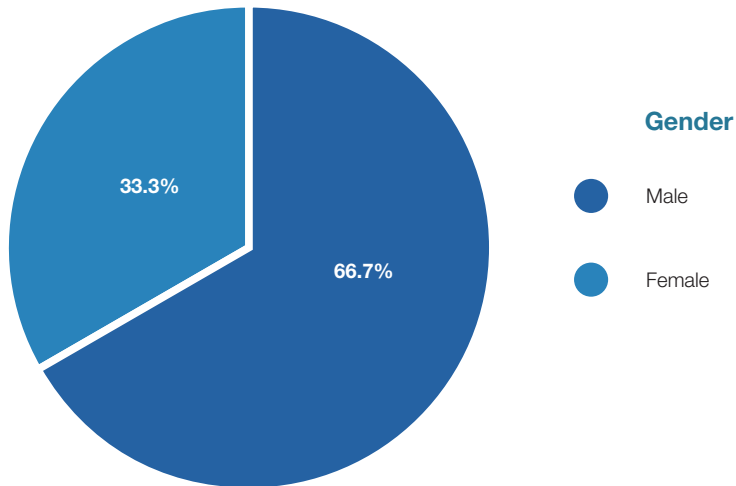
### 9.10 BOARD DIVERSITY POLICY

Pursuant to Rule 13.92 of the Listing Rules, the Board has adopted a board diversity policy. It sets out the ways to achieve and maintain the diversity of the Board in order to optimize the composition of the Board. The Company recognises and embraces the benefits of diversity of Board members, and the Company will ensure that the Board strikes a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. All Board appointments will continue to be made on a merit basis, and selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience, skills, knowledge and office term. The decision is ultimately based on the strengths of the personnel and the contributions that can be made to the Board.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

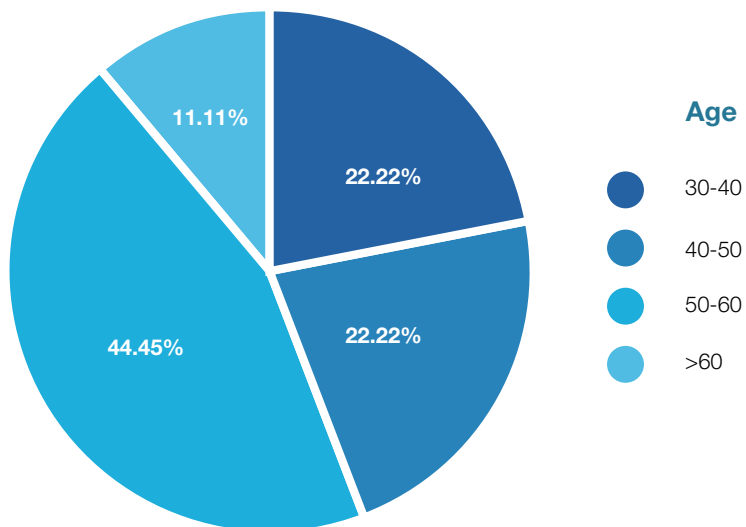
### 9.10.1 Gender

As of the date of this report, among the Board members, there are 3 female members and 6 male members, accounting for approximately 33.3% and 66.7% of the total number respectively.



### 9.10.2 Age

As of the date of this report, among the Board members, there are 2 members aged 30 to 40, 2 members aged 40 to 50, 4 members aged 50 to 60 and 1 member aged over 60, accounting for approximately 22.22%, 22.22%, 44.45% and 11.11% of the total number respectively.

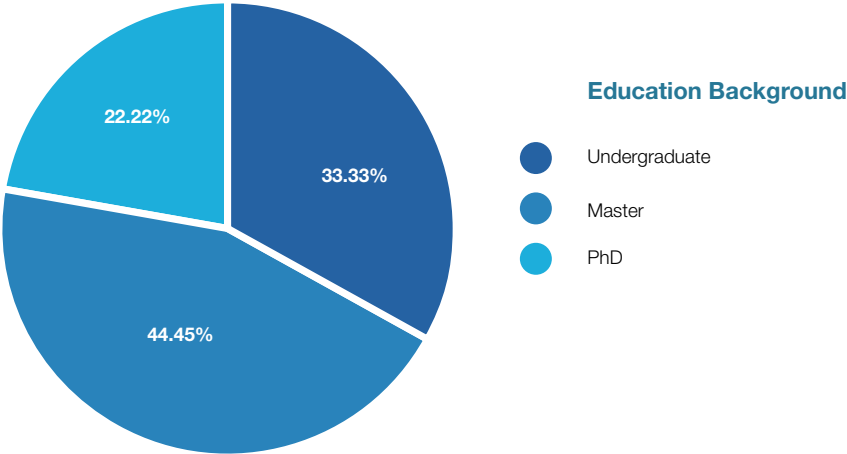




# CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

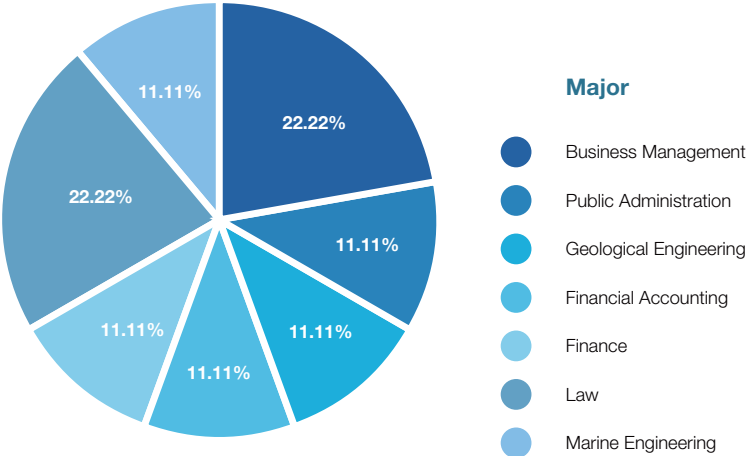
## 9.10.3 Cultural and Educational Background

As of the date of this report, among the Board members, there are 3 members holding bachelor's degree, 4 members holding master's degree and 2 members holding doctor's degree, accounting for 33.33%, 44.45% and 22.22% of the total number respectively



## 9.10.4 Major

As of the date of this report, among the Board members, there are 2 members majoring in business management, 1 member majoring in public administration, 1 member majoring in geological engineering, 1 member majoring in financial accounting, 1 member majoring in finance, 2 members majoring in law and 1 member majoring in marine engineering, accounting for 22.22%, 11.11%, 11.11%, 11.11%, 11.11%, 22.22% and 11.11% of the total number respectively.

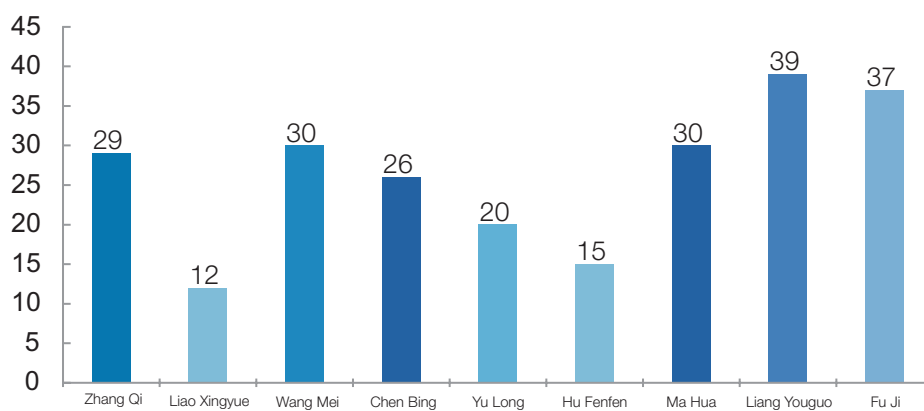


## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.10.5 Management Experience

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

#### Years of management experience



### 9.11 OPERATION OF THE BOARD

Board meetings are divided into regular meetings and extraordinary meetings. In accordance with the Corporate Governance Code, Board meetings shall be held at least four times per financial year. The meeting shall be convened by the chairman of the Board. According to the Articles of Association, Shareholders representing more than one tenth of the voting rights, the Supervisory Committee, or the chairman of the Board, more than one third of the Directors, more than two independent non-executive Directors or the general manager may propose the convening of an extraordinary meeting of the Board, the chairman of the Board shall convene the Board meeting within 10 days after receiving the proposal.

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

During the Reporting Period, the first session of the Board held 7 Board meetings, and the attendance of Directors are as follow:

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

During the Reporting Period, the Company held 3 general meetings in total, and the attendance of the first session of the Directors are as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and chairman of the Board	3/3	100%
Mr. Liao Xingyue	Executive Director and general manager	3/3	100%
Mr. Wang Junhua	Executive Director and deputy general manager	2/3	66.7%
Mr. Chen Bing	Non-executive Director	3/3	100%
Ms. Xu Yan	Non-executive Director	3/3	100%
Mr. Xie Xin	Non-executive Director	3/3	100%
Mr. Gu Ming'an	Independent non-executive Director	3/3	100%
Mr. Lin Bing	Independent non-executive Director	3/3	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	3/3	100%

Note: Mr. Wang Junhua resigned as an executive Director on 21 November 2021.

### 9.13 PROVISION AND USE OF INFORMATION ABOUT THE BOARD MEETING

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

### 9.14 TRAINING OF DIRECTORS

The Directors are able to make appropriate contributions to the Board by participating in the training programs to improve and upgrade their own knowledge and skills. During the Reporting Period, the Company arranged for the Directors, Supervisors and relevant senior management to attend the lecture on “ESG Reporting Rules Amendments to the Listing Rules” and “Corruption Prevention Training for Listed Companies” by the overseas lawyers of the Company, thereby enhancing its management’s understanding on the Listing Rules and the Corruption Prevention Ordinance for Listed Companies. All Directors including Mr. Zhang Qi, Mr. Liao Xingyue, Mr. Chen Bing, Ms. Xu Yan, Mr. Xie Xin, Mr. Gu Ming’an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick have participated in such training and provided relevant records to the Company.

### 9.15 COMMITTEES UNDER THE BOARD

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

#### 9.15.1 Strategy Committee

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

During the Reporting Period, the first session of the Strategy Committee consists of a non-executive Director Mr. Chen Bing, an executive Director Mr. Zhang Qi and an independent non-executive Director Mr. Lin Bing, with Mr. Chen Bing serving as the chairperson of the Strategy Committee.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

During the Reporting Period, the first session of the Strategy Committee of the Board held 2 meetings in total, considering and approving resolutions in relation to the annual investment plan, the annual business plan, the annual financing plan and the “14th Five-year” strategic development plan of the Company.

Attendance of members of the Committee is recorded as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Chen Bing	Non-executive Director	2/2	100%
Mr. Zhang Qi	Executive Director and chairman of the Board	2/2	100%
Mr. Lin Bing	Independent non-executive Director	2/2	100%

As of the date of this report, changes in the Strategy Committee are as follows:

<b>Name</b>	<b>Position</b>	<b>Date of appointment (since the first appointment)</b>	<b>Changes</b>
Mr. Zhang Qi	Chairman of the Strategy Committee	March 2017	Appointed as the chairman in March 2022
Mr. Chen Bing	Member of the Strategy Committee	March 2017	Retired as the chairman and appointed as member in March 2022
Mr. Lin Bing	Member of the Strategy Committee	March 2017	Retired as member in March 2022
Ms. Hu Fenfen	Member of the Strategy Committee	March 2022	Appointed as member in March 2022

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.15.2 Nomination and Remuneration Committee

The primary responsibilities of the Nomination and Remuneration Committee are to make recommendations to the Board on the appointment and removal of the directors and senior management of the Company, establish remuneration policies for the overall remuneration policy and structure of directors and senior management and for the establishment of formal and transparent procedures, provide recommendations to the Board, review the corporate policies and objectives set by the Board and approve management's compensation proposals, assess the performance of executive directors and approve the terms of service contract of executive directors and provide recommendations to the Board on employee benefit arrangements, as well as to provide recommendations to Board on the remuneration packages of individual executive directors and senior management.

During the Reporting Period, the first session of the Nomination and Remuneration Committee consists of independent non-executive Directors, namely Mr. Gu Ming'an and Mr. Cheng Hok Kai, Frederick, and executive Director Mr. Zhang Qi, with Mr. Gu Ming'an serving as the chairperson of the committee.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings in total, considering and approving the resolutions in relation to the independence of independent non-executive Directors, organised discussions on the Company's policy on remuneration of Directors, Supervisors and senior management and the structure of the Board of Directors, the Company's remuneration management system and enhancement proposals, and the candidates for the second session of the members of the Board.

Attendance of members of the Committee is recorded as follows:

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

As of the date of this report, changes in the Nomination and Remuneration Committee are as follows:

Name	Position	Date of appointment (since the first appointment)	Changes
Mr. Gu Ming'an	Chairman of the Nomination and Remuneration Committee	March 2017	Retired as the chairman in March 2022
Ms. Ma Hua	Chairman of the Nomination and Remuneration Committee	March 2022	Appointed as the chairman in March 2022
Mr. Zhang Qi	Member of the Nomination and Remuneration Committee	March 2017	Retired as member in March 2022
Mr. Cheng Hok Kai, Frederick	Member of the Nomination and Remuneration Committee	March 2017	Retired as member in March 2022
Mr. Yu Long	Member of the Nomination and Remuneration Committee	March 2022	Appointed as member in March 2022
Mr. Liang Youguo	Member of the Nomination and Remuneration Committee	March 2022	Appointed as member in March 2022

### 9.15.3 Audit Committee

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

During the Reporting Period, the first session of the Audit Committee consists of an independent non-executive Director Mr. Cheng Hok Kai, Frederick, and an independent non-executive Director Mr. Gu Ming'an and a non-executive Director Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick serving as the chairperson of the committee.

During the Reporting Period, the first session of the Audit Committee held 4 meetings, in which, the Auditor's Report for 2020, the Interim Review Plan for 2021 and the Review Report were heard; and the Auditor's Report, Annual Results, the Annual Report for 2020, Auditor's Interim Report, the Interim Consolidated Financial Statements, the Interim Results announcement and the Interim Report for 2021, the Company's Risk Management and the Internal Control Report were considered and adopted, concerns about possible improprieties in financial reporting, internal control or other matters were raised, the audit work during the Reporting Period, change of auditor and audit plan for 2021 were arranged.

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

Attendance of members of the Committee is recorded as follows:

<b>Name</b>	<b>Position</b>	<b>Meetings attended/ eligible for attending</b>	<b>Attendance rate</b>
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	4/4	100%
Mr. Gu Ming'an	Independent non-executive Director	4/4	100%
Mr. Xie Xin	Non-executive Director	4/4	100%

As of the date of this report, changes in the Audit Committee are as follows:

<b>Name</b>	<b>Position</b>	<b>Date of appointment (since the first appointment)</b>	<b>Changes</b>
Mr. Cheng Hok Kai, Frederick	Chairman of the Audit Committee	March 2017	Retired as the chairman in March 2022
Mr. Fu Ji	Chairman of the Audit Committee	March 2022	Appointed as the chairman in March 2022
Mr. Xie Xin	Member of the Audit Committee	September 2017	Retired as member in March 2022
Mr. Gu Mingan	Member of the Audit Committee	March 2017	Retired as member in March 2022
Ms. Ma Hua	Member of the Audit Committee	March 2022	Appointed as member in March 2022
Mr. Liang Youguo	Member of the Audit Committee	March 2022	Appointed as member in March 2022



## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.16 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established formal and transparent procedures for the formulation of the remuneration policy for the senior management of the Group. Details of the remuneration of Directors during the Reporting Period are set out in Note 11(2).6 to the consolidated financial statements.

In accordance with B.1.5 (which has been re-numbered as Code Provision E.1.5 with effect from 1 January 2022 and is hereinafter expressed under the new numbering) of the Corporate Governance Code, the following table sets out the remuneration paid to senior management of the Company (excluding Directors) categorized by range during the Reporting Period in this annual report:

Remuneration range (RMB'000)	Number of persons
600–700	0
500–600	1
400–500	2
300–400	0
200–300	0
Below 100	0

### 9.17 DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability to operate as a going concern. The Directors confirm that they are aware of the responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2021.

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

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

### 9.18 RIGHTS OF SHAREHOLDERS

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

- (1) to sign one or more written requests of the same format and content to propose the Board to convene a Shareholders' class meeting and clarify the subject matter of the meeting. The Board shall convene a Shareholders' class meeting as soon as possible after receiving the aforesaid written request. The percentage of shares mentioned above is calculated on the basis of the number of Shares on the date of the written request from the Shareholders.
- (2) if the Board has not issued a notice of convening a meeting within thirty days after receipt of the foregoing written request, the Shareholder who makes the request may, on its own, convene the meeting within four months of the receipt of the request by the Board. The related procedures for convening shall be as close as possible to that of the Board.

Shareholders have the right to submit extempore motions to the general meeting. According to the Articles of Association, when a general meeting is convened by the Company, Shareholders who individually or collectively hold more than 3% (inclusive) of voting shares of the Company shall be entitled to propose extempore motions to the Company in writing 10 days before the date of the general meeting. The content of the extempore motions shall fall within the terms of reference of the general meeting. The convenor shall issue a supplementary notice of the general meeting within two days of receipt of the motions and submit the extempore motions to the general meeting for consideration.

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

Address: No. 16, Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC  
Telephone number: +86 830 3194768  
Company website: [www.lzss.com](http://www.lzss.com)  
E-mail address: [lzxlwaterstock@lzss.com](mailto:lzxlwaterstock@lzss.com)

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

### 9.19 COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

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

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

### 9.20 RISK MANAGEMENT AND INTERNAL CONTROL

The Board believes that it is its responsibility to develop, maintain and evaluate a sound and effective risk management and internal control system. The Group has established an enterprise risk management structure to effectively implement risk management and internal control.

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

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

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

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

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

The Board conducts a review on the effectiveness of the Company's risk management and internal control systems at least once annually. The internal audit department has conducted an independent review of the Company's 2021 annual risk management and internal control systems to assess its effectiveness. The report of the internal control review has been submitted to the Audit Committee for confirmation.

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

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

### 9.21 AUDITOR AND REMUNERATION OF AUDITOR

On 28 December 2021, the Company's auditor was changed from Deloitte Touche Tohmatsu to ShineWing Certified Public Accountants LLP as approved by the second extraordinary general meeting of the Company in 2021. The Company's audit services for the year 2021 were provided by ShineWing Certified Public Accountants LLP. For details, please refer to the announcements of the Company dated 9 December 2021 and 28 December 2021 and the circular of the Company dated 10 December 2021 respectively.

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

## CHAPTER IX CORPORATE GOVERNANCE REPORT (Continued)

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

Auditors	Annual audit services			Interim financial review services	Other services	Total charges (RMB'000)
Deloitte Touche Tohmatsu		500		450	0	950
ShineWing		1,280		0	0	1,280

### 9.22 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 28 December 2021, following approval by the second extraordinary general meeting of the Company, certain provisions relating to accounting standards in the Articles of Association of the Company were amended. For details, please refer to the announcements of the Company dated 9 December 2021 and 28 December 2021 and the circular of the Company dated 10 December 2021 respectively. The amended Articles of Association have been published on the websites of Hong Kong Stock Exchange and the Company for review.

### 9.23 TRAININGS FOR COMPANY SECRETARY

During the Reporting Period, Mr. Chen Yongzhong and Ms. Ng Wing Shan were the joint company secretaries of the Company. Mr. Chen Yongzhong was the principal contact person of Ms. Ng Wing Shan in the Company. Ms. Ng (who is the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited) assisted Mr. Chan in discharging his duties as the joint company secretaries of the Company. Mr. Chen and Ms. Ng participated in training not less than 15 hours during the Reporting Period to ensure compliance with Rule 3.29 of the Listing Rules.

On 4 March 2022, Ms. Ng Wing Shan resigned as a joint company secretary of the Company, and Mr. Chen Yongzhong continues to remain and act as the sole company secretary of the Company.

### 9.24 REGULATORY REVIEW

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

### 9.25 LITIGATION AND ARBITRATION

During the Reporting Period, in the course of performance of the Cooperation Agreement for Wastewater Treatment Equipment Supply and Installation in the Townships and Rural Areas in Luzhou City signed between Fanxing Environmental and Changqi Company, dispute related to contract price arose between both parties due to the quality of equipment supplied by Changqi Company not meeting contract stipulation. The bankruptcy administrator of Changqi Company has filed a lawsuit on behalf of Changqi Company, seeking payment of RMB42.82 million and liquidated damages of RMB17.15 million, as well as litigation costs from Fanxing Environmental. The case is currently being processed.

# CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS ESG REPORT

### Organizational Scope:

This Report covers Luzhou Xinglu Water (Group) Co., Ltd. (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”, “**we**” or “**Xinglu Water**”), including sewage pipe network branch of Luzhou Xinglu Wastewater Treatment Co., Ltd. (the “**Sewerage Network Branch**”) and Luzhou Xinglu Wastewater Treatment Co., Ltd. (the “**Xinglu Wastewater Treatment**”), etc. There are no significant changes in the scope of this report from previous years. To facilitate ease of presentation, the terms “**the Company**” and “**we**” in this Report refer to the Group.

### Reporting Period:

This Report is an annual Report covering the period from January 1, 2021 to December 31, 2021. Part of the content may exceed the above period due to elaboration.

### Preparation Basis:

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

### Data in the Report:

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

### Form of Issue:

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

### BOARD OF DIRECTORS' STATEMENT

The Board of Directors of the Group attaches great importance to the ESG-related work of the Group and is fully responsible for the ESG strategy and reporting, assessing and identifying the Group's ESG risks and ensuring that the Group has an appropriate and effective ESG risk management and internal control system in place. This Report provides detailed information on the progress and effectiveness of the Group's ESG work in 2021 and was approved by the Board of Directors on March 20, 2022. The Board of Directors and all Directors ensure that the contents of this Report do not contain any false statements, misleading statements or material omissions and accept individual and joint responsibility for the truthfulness, accuracy and completeness of the contents of this ESG Report.

To enhance ESG governance, we have established an ESG management system with the Board of Directors as the highest level of responsibility and decision maker on ESG matters. The Board of Directors is responsible for reviewing and approving the annual Environmental, Social and Governance Report, the process of identifying, evaluating and managing significant ESG-related issues (including risks to the Company's business), and the strategies developed around risk mitigation for environmental impact, products and services, employees, procurement, etc. We integrate ESG-related work into the daily operations of the Group and establish an ESG working group to clarify the responsibility for ESG management and implementation of objectives, with dedicated staff to communicate ESG-related matters, collect information and prepare and compile reports, etc. At the annual board meeting, a motion on ESG Report is proposed and reported by the management and considered by each director and supervisor.

Based on the external environment and the Group's development strategy, the Group conducted communications and surveys with stakeholders during the Reporting Period and received a number of feedback suggestions. Under the leadership of the Board of Directors, we assessed the importance of these issues and identified the key ESG issues to clarify our future priorities.

In 2022, the Group focused on reviewing and monitoring the implementation of ESG issues such as *the motion to review the Report on safety, environment and occupational health for fiscal 2021 and the motion to review the corporate governance function* as core work.

We have recognized the opportunities and challenges brought to the industry and the Group's operation by the development trend of green and safe sustainability. Going forward, we will continue to adjust our sustainable development management strategy and promotion methods in accordance with the expectations of our stakeholders and the actual operation of the Group, and continuously improve our sustainable development level.

### ABOUT US

#### ESG Management

##### ***ESG Governance Framework***

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

The Board of the Company paid great attention to the issues of the Group concerning environment, social, and governance. To promote the ESG-related work, the Group has established an ESG working group to clarify the implementation of ESG management and target responsibilities, and arranged full-time staff in charge of ESG-related affairs communication, data collection, report preparation, and other work related to ESG, including assessment and determination of environmental, social and governance risks of the Group, ensuring establishment of an efficient environment, social, and governance risk management and internal monitoring system of the Group. In addition, they also responsible for reviewing the Group's performance regularly, approving materials disclosed in the ESG Report of the Group and reporting the related information to the Executive Committee on a regular basis.

The Strategy Committee formulates the Group's business objectives and long-term development strategies, makes recommendations on major issues, and oversees the implementation of annual business plans and proposals. The main duties of the Nomination and Remuneration Committee including making recommendations to the Board on the appointment and removal of directors and senior management, establishing and reviewing the remuneration policy and structure for directors and senior management and making recommendations to the Board on employee benefit arrangements. The primary responsibilities of the Audit Committee are to oversee our internal controls, risk management, financial disclosure and financial reporting matters.

##### ***ESG Reporting Principles***

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

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

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

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



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

### Stakeholder Communication

We understand the importance of interaction and communication with our stakeholders and it is a priority for the Group to maintain an open and continuous dialogue with our stakeholders and to be responsive to their concerns. Therefore, the Group continued to maintain communication with stakeholders, establishes diversified communication channels, constantly listened to the expectations and appeals of stakeholders, and responded to the opinions of stakeholders in a timely manner to enhance stakeholder participation in the Group's ESG management. While operating in compliance with laws and regulations, the Group fulfilled its social responsibilities, and created value for stakeholders. Collating and preparing stakeholders communication form from the perspective of sustainable development, the Group laid a foundation for identification of material issues of the Group to improve the Group's sustainable performance and effectively respond to the expectations of all parties.

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

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

Stakeholders	Topics	Channels of Communication	Responses
Employee	<ul style="list-style-type: none"> <li>• Equal and diversified employment</li> <li>• Reasonable salary and welfare</li> <li>• Smooth development channel</li> <li>• Safe and healthy working environment</li> <li>• Preventing child labor and forced labor</li> <li>• Employee satisfaction</li> <li>• Employee health security under COVID 19</li> </ul>	<ul style="list-style-type: none"> <li>• Employment contract</li> <li>• Employee activity</li> <li>• Employee representative congress</li> <li>• Mails, websites, and other communication platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Equal employment</li> <li>• Diversified recruitment</li> <li>• Promotion channel</li> <li>• Training System</li> <li>• Occupational health management</li> <li>• Caring activities for employees</li> </ul>
Suppliers and partners	<ul style="list-style-type: none"> <li>• Transparent procurement</li> <li>• Win win cooperation</li> <li>• Keeping promises</li> <li>• Supply chain risk management</li> <li>• Green procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Open tendering</li> <li>• Project cooperation</li> <li>• Partner conference</li> <li>• Visit suppliers</li> <li>• On line service platform</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain responsibility management</li> <li>• Sunshine procurement</li> <li>• Green procurement</li> </ul>
Community	<ul style="list-style-type: none"> <li>• Community public benefit</li> <li>• Rural revitalization</li> <li>• Voluntary activities</li> </ul>	<ul style="list-style-type: none"> <li>• Public benefit activity</li> <li>• Community service</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteer services</li> <li>• Public charity activities</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Emission reduction</li> <li>• Energy saving</li> <li>• Protecting environment and natural resources</li> <li>• Environmental compliance</li> <li>• Establishing environmental protection goals</li> <li>• Response to climate change</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental impact assessment</li> <li>• Environment information disclosure</li> <li>• Public investigation on project and environmental impact</li> <li>• Public benefit activity for environmental protection</li> <li>• Communication with environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing environment management system</li> <li>• Emissions management</li> <li>• Efficient use of resources</li> <li>• Minimizing environmental impact</li> </ul>

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

### **Materiality Assessment**

The Group, by referring to the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules and international standards, combines the feedback from various stakeholders and external experts' opinions based on the actual business operation and development plan. By sorting out the concerns of the mainstream ratings of the capital market for the industry in which the Group is located, the substantive issues database of ESG Report is constructed. During the Reporting Period, the ESG working group of the Group took the lead in conducting interviews with a wide range of internal stakeholders, and invited relevant parties to score 38 ESG issues in the topic database in the form of questionnaire survey. The materiality matrix for this Report is developed by evaluating two dimensions: "importance to stakeholders" and "importance to management". The matrix presents the materiality of issues into two levels: very important and important.

### **Materiality Assessment for Xinglu Water's 2021 ESG Report**

#### **01 Identification and Confirmation of ESG Matters**

- Comprehensively sorted out the key points of the Group's sustainable development work and the feedback of stakeholders, benchmarked industry hotspots and leading practices, delineated the scope of ESG issues;
- Identified the industry's focus in the field of sustainable development by referring to relevant assessment elements such as ESG ratings in the capital market, combined with the relevant disclosure guidelines and goals of sustainability.

#### **02 Stakeholder communication and research**

- Conducted stakeholder interviews to collect feedback and suggestions from stakeholders on our sustainable development practices, as well as their views on future sustainable development strategies;
- Compiled an online questionnaire for ESG substantive issues evaluation, and invited stakeholders to rate the substantive aspects of the corresponding ESG issues.

#### **03 Materiality Assessment**

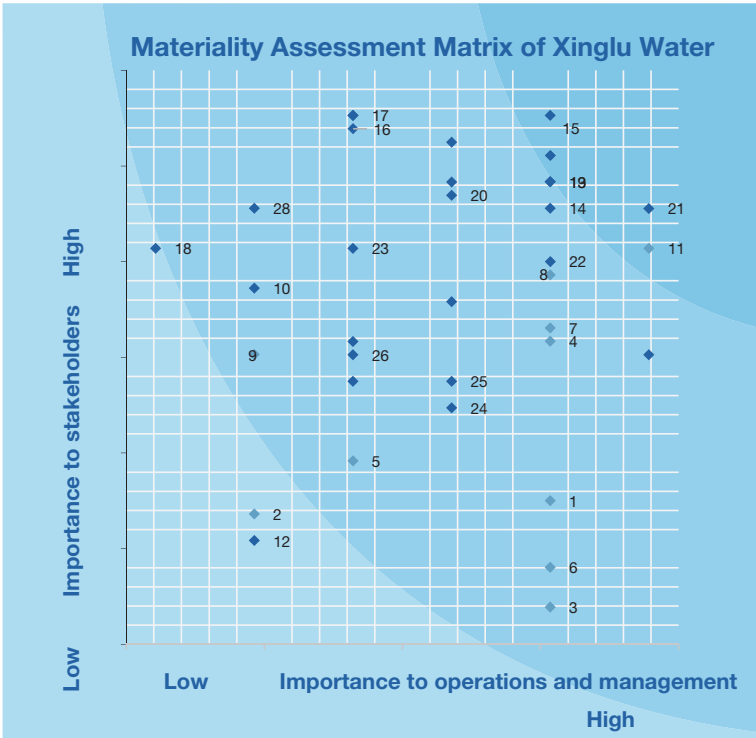
- Based on the results of the stakeholder questionnaires and considering the development of enterprises and the suggestions from external experts, we evaluated the ESG issues, and generated a matrix of material ESG issues from the perspectives of "importance to stakeholders" and "importance to operations and management".

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

The Group paid more attention to the following issues during the Reporting Period: Compliance management, Corporate governance and risk management, Reduce and recycle waste, Environmental compliance, Ecological environment and natural environment protection, Employee Management, Supplier Management, Win-Win Cooperation, Stable and efficient water services, Customer Satisfaction, Consumer Rights Protection, Continuous Return on Value Creation, Support the development of operating sites, Anti-corruption supervision and management, Anti-Corruption Training, Rural revitalization, Social Welfare, Community Building.

Xinglu Water's 2021 Material ESG issues			
Very Important			
04 Compliance management	05 Corporate governance and risk management	07 Reduce and recycle waste	08 Environmental compliance
11 Ecological environment and natural environment protection	13 Equal employment	14 Salary and welfare	15 Occupational safety and health
16 Employee rights protection	17 Employee satisfaction	19 Staff development and training	20 Compliance Employment
21 Prevention of child labor and forced labor	22 Open and fair procurement	23 Win-Win Cooperation	24 Supplier Assessment
25 Supply Chain Risk Management	26 Green Procurement	27 Stable and efficient water services	30 Customer Satisfaction
31 Consumer Rights Protection	32 Continuous Return on Value Creation	33 Support the development of operating sites	34 Anti-corruption supervision and management
35 Anti-Corruption Training	36 Rural revitalization	37 Social Welfare	38 Community Building
Important			
01 ESG Responsibility Concept	02 ESG Responsible Governance Framework	03 Stakeholder involvement in liability management	06 Greenhouse gas emissions reduction
09 Environmental Goal Setting	10 Energy and Resource Efficient Use	12 Addressing Climate Change	18 Employee Care
28 Customer Service Quality	29 Customer privacy protection		

Materiality Assessment Matrix of Xinglu Water’s 2021 ESG Report



In the future, we will continue to pay attention to various stakeholders, constantly review and update important ESG issues, and introduce the participation of external stakeholders when conditions are mature, so as to more accurately and fully understand the demands of multiple parties and provide guidance and direction for the development of corporate operations, and ESG related work.

**Anti-corruption**

Enterprises should operate with integrity, abide by business ethics, and be responsible for business behavior. We strive to establish a compliance management system that conforms to industry-leading practice. The Group strictly complied with relevant national laws and regulations about anti-corruption and antibribery such as *the Company Law of the People’s Republic of China and the Anti-Money Laundering Law of the People’s Republic of China*, and formulated a number of regulations, such as *the System for Preventing Illegal Works, the Integrity Conversation System, the Management Measures for Bidding for Engineering Project, the Management Measures for Construction Cost Audit, the Management Implementation for Construction Project, the Management Measures for Materials, Management Measures for Bidding Comparison and Selection, the Measures for Decision Making for Major Events, the Measures for Decision Making for Arrangement of Major Events, the Measures for Decision Making for Important Personnel Appointment and Removal, and the Measures for Management of Use of Large Sum of Money* and other systems. The Group firmly opposes and explicitly prohibits corrupt practices and hopes to create a culture of cleanliness, honesty and integrity within the Group.

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

During the Reporting Period, in order to effectively conduct strict Party self-governance and build an anti-corruption supervision mechanism to promote the modernization of the Group's governance system and governance capacity, the Group revised *the Enterprise Discipline Inspection and Supervision System* in accordance with *Supervision Law of the People's Republic of China*, *Regulations on Supervision within the Communist Party of China* and other laws and regulations combined with the actual situation of the Group. At the same time, in order to implement the main responsibility of the strict Party self-governance and legal enterprise's self-governance, so as to further strengthen the internal control management system and fully protect and increase the value of state-owned assets, according to *the Regulations on the Accountability of the Communist Party of China* · *Law of the People's Republic of China on Government Sanctions for Public Employees* and other laws and regulations, combined with the actual situation of the business, the Group has formulated *the Management Measures on First Inquiry Accountability System*.

### • **Anti-corruption Management**

Regarding anti-corruption management, the Group not only paid attention to the implementation of related honesty responsibilities, but also stressed on the enhancement of the ideological construction of employees. The Group had taken various measures to implement anti-corruption management to ensure efficient and orderly operation of the Group:

- The Group signed honesty-related responsibility statements with corresponding organizations and individuals; for example, the annual *Targeted Responsibility Letter on Practice of Honesty* was signed by and between the Group and the employees on positions of honesty risks, and the Party Committee and Party Branches of the Group signed the *Targeted Responsibility Letter on Party Building and Construction of Clean Party Conduct*, etc.
- The *Honest and Clean Agreement* was introduced to improve the system for the honesty risks prevention and control, and to effectively prevent the honesty risks of business cooperation.
- The Group organized and carried out the honesty oath for middle-level and grassroots management personnel, and conducted honesty talks with them before and in their term of office. The Group was dedicated to strengthening the staff's awareness of honesty, and enhanced the construction of clean party conduct and the education and management of the staff team of the Group, and perfected the mechanism for supervision and restriction of practice of honesty.
- The Group carried out social evaluation on the construction of clean party conduct of the Group to enhance the Group's Communists and leading cadres' awareness of honesty.
- The Group carried out the investigation of post corruption risks, establish corruption risk point checklists, prevention and control measures.
- For key positions in the industry such as engineering projects, business services, and material procurement, the discipline committee of the Group has widely solicited the red line and bottom line of post corruption risk; on this basis, we integrated the content of the Company's *Labor Discipline Management Measures*, and extracted the "red line bottom line" problems of employees in terms of professional ethics, work discipline, and integrity bottom line, finally formed the *Employee Handbook of Professional Ethics and Code of Conduct*.

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

- **Reporting Channels**

The Group took the initiative to encourage the masses to strengthen supervision, set up reporting related telephone (0830-2367075) and mailbox (397027037@qq.com), in order to facilitate timely and accurate feedback from the masses, and promote the healthy operation and steady development of the Group.

- **Anti-corruption Training**

To effectively strengthen the construction of clean party conduct of the Group and integrity warning education, we carried out a number of anti-corruption trainings in an all-round way:

- Invited lawyers and other external experts to conduct relevant anti-corruption training for Board Members;
- Invited people from government agencies to conduct anti-corruption training for middle and senior management personnel of the headquarters and managers of key units;
- Party Committee organized the study and training meeting of the central group of the Party Committee every month. Members of the Group's Party Committees, member of the leading body of the Party, members of the discipline committee of the Group, and secretaries of Party Branches (general) participated the training, and each training lasted 2 hours;
- The Group held a monthly study (expansion) meeting of the General Party Branch to study the laws and regulations on integrity and related typical cases.

- **Anti-corruption Publicity**

The Group sent honesty messages to the leaders and middle management before holidays, and established the "three mornings and three cards" system, issuing honesty reminder card to personnel on important positions. During the Reporting Period, the Group produced a *Professional Ethics and Integrity Handbook* and sent it to each employee to convey the bottom-line awareness of anti-corruption to employees.

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

For the key area of internal audit concern, i.e. the internal audit of the Group's engineering projects, we formulated the Management *Measures of Engineering Costs*, graded audit work according to the amount of engineering projects. According to the audit authority, the Group's Legal Audit Department reviewed the key points of the project and hired a third party to audit and issue the engineering budget and final account report.

### LEADING STANDARDS-BASED SERVICES

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

#### Case: Continuous optimization of the Group’s quality management system

In order to continuously promote the quality improvement of the Group, the Group combined the improvement of service quality with the standardization of the three systems of quality management, reviewed the conformity, adaptability and effectiveness of the quality management system, identified the existing problems, carried out comprehensive rectification and improvement referencing to the standard, and ensured the continuous improvement of quality.

In June 2021, the Group carried out the internal audit and management review of quality system. Through the top-down comprehensive audit, we have dug deeper into the Group’s quality management problems and rectified them, as for areas for improvement in the process of accomplishing the annual quality target, we asked the relevant departments and units to improve and upgrade in a timely manner.

In October 2021, the Group reviewed the quality management system in terms of the adaptability and compliance of the existing system, and made a focused revision of the system according to the actual situation of business production and operation to ensure that the quality system documents conform to the production and operation management.

In November 2021, the Group hired experts from the China Association for Quality to conduct an external review of the Group’s three systems (quality management, environmental management and occupational health and safety management). We successfully passed this certification and continued to keep the *Quality Management System Certification*, *Environmental Management System Certification* and *Occupational Health and Safety Management System Certification* issued by the Quality Assurance Center of China Association for Quality.

Through the development, release and implementation of the enterprise quality system, realizing the standardization of work processes and implementing the standardized ideas and requirements into the specific work like water production, water selling and services, the water enterprises of the Group made standardized production and services become the operational rules for production and operation. At the same time, we monitored the implementation of system documents by internal audit, external audit and management review · revised them according to the production and operation condition · making the quality system an important guarantee for service and quality improvement.



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

### Water Supply

The Group strictly complied with relevant laws and regulations, such as *the Production Safety Law of the People's Republic of China*, *the Water Law of the People's Republic of China*, *the Law of the People's Republic of China on Prevention and Control of Water Pollution*, *the Environmental Protection Law of People's Republic of China*, *the Water Quality Standard for Drinking Water Sources*, *the Sanitary Standard for Drinking Water*, *the Municipal Water Supply Administrative Regulations in Sichuan Province*, *the Regulation of City Water Supply Quality Management*, and *the Measures for the Supervision and Administration of Sanitary Drinking Water*, and formulated *the Management Measures for Water Quality*, *the Management Measures for Water Quality Monitoring*, *the Provisions for Water Quality Testing*, *the Regulation for Health Protection Management*, and other relevant management provisions to assure water quality. The Group had passed the ISO 9001 quality management system certification. In addition, the Group established internal control indicators for water quality, and implemented stricter quality test standards for the quality of finished water to ensure the provision of high-quality and safe tap water for urban development and citizens' lives.

During the Reporting Period, the Group's total water supply amounted to approximately 183,600,000 tons. The testing by all levels of the Group had been well executed, with pass rate of 100%.

### Safe Water Intake

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

### Clean Water Production

The Group produced tap water strictly in accordance with the *Sanitary Standard for Drinking Water* (GB5749-2006) and other relevant provisions and formulated a series of mechanisms and measures to ensure clean water:

1. **Institutional management:** develop an internal quality management manual and manage the water production process in strict accordance with the quality management manual.

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

2. **Three-level testing system:** We implement a three-level testing system for water quality. The first and second of which follow the Group's *Water Quality Testing Standards* and the third level implement the *National Sanitary Standards for Drinking Water*:
  - On the first level, the main water quality indicators are tested by the production enterprises under our control. The on-line water quality equipment monitors and records the turbidity and residual chlorine 24 hours a day and portable water quality monitoring equipment is used for sampling test regularly;
  - The second level is sampled and tested by the Group;
  - The third level is sampled and tested by the Luzhou Monitoring Station of the Sichuan Water Supply and Drainage Water Quality Monitoring Network.
3. **Indicator control:** set up a number of production-related indicators and targets, such as self-watering rate, drug consumption, electricity consumption, water turbidity, etc., and strictly control them according to the indicators;
4. **Daily review of control mechanism:** the person in charge of each water plant report the index data to the headquarters in a daily basis, explain the reasons for abnormal indicators, identify and resolve exceptions in a timely manner;
5. **Comprehensive monitoring:** the Group monitored the whole production process. We tested raw water, process water, finished water, and water at end of the pipe network to ensure the safety of drinking water;
6. **Multiple testing:** We combine online monitoring and personnel testing · enterprises and government departments conduct regular inspections and unscheduled spot checks.

### ***Stable Water Supply***

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

- Before the peak of water supply came, prepare a water supply dispatching scheme and carry out drills in advance to ensure the smooth dispatching of the peak water supply; before the arrival of summer, effectively carry out the equipment maintenance and water-production materials reserve work in advance to ensure the smooth water supply;
- Organize various emergency response plans and emergency supplies related to production safety, equipment failure, raw water abnormality, etc., respond to emergencies in a timely manner, and ensure normal and orderly water supply;

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

- Conduct monthly water meter audit and inspection, such as meter management, patrol (leakage detection) of pipeline network, weekly water meter inspections, secondary water supply, universe water supply, etc., and rectify problems found in a timely manner;
- Use the combination of high-efficient units to fully safeguard the stable water supply while reducing energy consumption;
- Strengthen the patrol inspection during the production and introduce the Intelligent Inspection System;
- Introduce the central control voice alarm system which monitors and announces faults in real time.

### Case: The “Third Eye” of the central control room

As of the end of the Reporting Period, the Group has been introducing and continuously optimizing the central control voice alarm system for 4 years, and has achieved coverage of the central control voice alarm system in all factories. The voice alarm system in the central control room can broadcast the monitored abnormal data in real time, including the place where the abnormal data occurred and the abnormal parameters. Each water plant can set the upper and lower limits of the alarm data value by itself, effectively preventing employees from neglecting the monitoring of indicators at night.



### High-quality Services

“Refreshing the customer experience with true feelings and interpreting the harmony between human and water with actions” was the service concept that the Group constantly followed. In order to better carry out business work and improve the ability of business personnel, the Group has formulated normative documents such as *Customer Service Hotline Management Measures*, *Service Management Specifications for External Service Posts*, *One-stop Service Work Manual for Service Hall* and so on. And through continuous follow-up, we constantly revise the relevant norms and manuals and require the staff of each operation unit to implement them accordingly, so as to be customer-centric, standardize the service process, strengthen customer communication and continuously improve the service level.

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

During the Reporting Period, we took a number of measures to continuously optimize customer service:

- **System specification:** clear complaint handling specification, strict compliance with customer complaint handling process and procedures, standardize the efficient resolution of customer problems and improve service levels;
- **Establishing scientific indicators:** set up a number of KPIs to evaluate service management standards, such as service quality standard KPI (ratio of effective complaints to total number of business), timeliness rate of handling of repairs and consultations of users, timely repair rate of emergency events such as water pipe bursting, etc.;
- **Organizing training:** organize training activities on relevant systems and policies. During the Reporting Period, the Group organized several training sessions about one-stop service working process and optimization of business environment, through these trainings, business personnel can better understand their job responsibilities and workflow, and be comfortable in their work;
- **Customer satisfaction surveys:** conduct regular customer satisfaction surveys to truly understand customer feelings and evaluation, and analyse customer feedback in depth to improve service quality;
- **Monthly summary:** Summarize and analyse the complaint situation every month, complete the Complaint Work Summary, and continuously optimize the service process and improve the work according to the summary;
- **Improving the after-sales service:** constantly improve the after-sales service, strengthen the management of water quality and water pressure and the communication and handling of repairs and consultations of users, and require employees to provide smiling service for customers to build a good service image;
- **Optimizing the business environment:** The Group optimize water services in five ways: process, material, time, cost and convenience. We improved our work through providing diversified services such as online business hall. At the same time, we also carry out the “ Human-Water Harmony “ activity for the benefit of the people and enterprises.

The Group attaches great importance to communication with customers, develops several customer-oriented communication and complaint channels, and formulates management measures such as *Management Measures for Municipal Service Hotline* and *Management Measures for Customer Service Hotline*. Customers can reflect their problems through the mayor’s hotline, our call center, online business hall, WeChat public account and the government affairs service center. For each customer call, from incoming call acceptance to customer return visit, each process is fully tracked by specialized personnel to form a closed-loop management. We valued timeliness in responding to users and suggested solutions in response to the deficiencies and urged the relevant departments to rectify.

During the Reporting Period, we received 91 valid users’ complaints and reports and the completion rate of processing was 100%. There are no 12345 government hotline unsatisfactory cases.

**Case: Conducting a 2021 customer satisfaction survey and developing optimization plans based on the results**

We have formulated a rectification plan, clarified the solution measures, processing time frame, and are now classifying and carrying out related work for the various types of problems responded to in the report, such as publicity and explanation, water pressure test, pipe network transformation, etc.



**Case: Completed the first phase of the household water meter transformation project**

In order to solve the contradictions of primary-level governance and guarantee the safety of urban water supply, according to the spirit of the document *Implementation Plan for the Transformation of Water Meter in the Main Urban Area of Luzhou City* issued by the Municipal Government Office, the water enterprises of the Group has organized the implementation of the water meter transformation project since October 2019. As of 2021, the first phase of the water meter transformation project has been completed for 82,000 households, of which, more than 10,000 households have completed in 2021. After the transformation, the water enterprises of the Group will unify the management, which can completely solve the problems such as the discrepancy between the total water meter and the sub-water meter, the unreasonable setting of the secondary pressurized water supply equipment, and the lack of transparency of public water use. At the same time, the water enterprises of the Group provides households with services such as door-to-door meter reading service, diversified bill payment and free lifelong management of water supply facilities to safeguard the “last kilometer” water supply and improve the quality of life of residents.



Photos of the master meter before the renovation

Photos of the water meter after transformation

### Wastewater Treatment

The Group strictly in accordance with the laws and regulations to carry out product quality management such as *the Environmental Protection Law of the People's Republic of China, the Law on Prevention and Control of Water Pollution of the People's Republic of China, the Product Quality Law of the People's Republic of China, the Standardization Law of the People's Republic of China, the Metrology Law of the People's Republic of China*; The Group strictly complied with the laws and regulations such as *Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002), Technical Specification for Operation, Maintenance and Safety of Municipal Wastewater Treatment Plant (CJJ60-2011), Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143), Opinions about Deepening Environmental Monitoring Report and Improving Environmental Monitoring Data Quality, Regulations of Drainage Management of Sichuan Province, Regulation of Urban Drainage and Wastewater Treatment, Technical Specification for the Operation and Assessment of Sewage On-line Monitoring System (on trial) (HJT355-2007), and Technical Specifications Anaerobic-Anoxic-Oxic Activated Sludge Process(HJ576-2010), formulated the Compilation of Production Management System, and realized the efficient wastewater treatment through advanced treatment technology.*

During the Reporting Period, the total amount of sewage treated by the Group reached 144.29 million tons, an increase of 3.43% compared with 139.5 million tons in the previous year.

### High-efficiency Treatment Technology

The Group attached great importance to the development of wastewater treatment technology, formulated the *Management Measures for Testing and Promoting New Technologies* to regulate the test, promotion and follow-up management of new technologies for wastewater treatment, and proactively explored advanced technology in the relevant field. The Group took the lead in implementing the "Internet + Production Management" system in the water supply business segment. Since its first implementation, the system has been continuously optimized. During the Reporting Period, the "Internet + Production Management" system was introduced into the sewage treatment business segment, which fully realized the full coverage of the system in the Group.

### Case: "Internet + Production Management" system used in wastewater treatment business

"Internet + Production Management" system mines and uses data generated during the production process based on automated data collection to achieve real-time display and curve analysis of Key Production Indicators (KPIs), so that production management can identify production exceptions promptly and enhance water plants' lean management through plant-to-plant and plant-to-Group data connection by applying Internet technologies.

The system supports real-time supervision and control of power consumption and data collection and identifies and handles data exception in a timely manner. The system supports comprehensive daily analysis in alignment with the Group's mechanism of requiring each plant manager to report their production indicators each day and significantly improves work efficiency, thus reducing power consumption.

### **Water Quality Assurance**

The Group has always been committed to standardizing the management of wastewater treatment and has adopted various measures to ensure the qualified water quality.

- We established the *Compilation of Production Management System* to clarify the management and control content of the production and operation process, and to effectively ensure the production, operation and the water output is stable and up to the standard;
- We established the water quality early warning management system. The plant will adjust the production and operation parameters to ensure stable quality of the effluent when the effluent quality reaches the precautionous line (80% of the effluent standard);
- Each branch set up a laboratory in charge of routine testing of water quality and on-line monitoring dosage of the equipment;
- Water inlet and outlet on-line monitoring equipment was also equipped to promptly master the quality indicators of inlet and outlet water;
- All production and operation sites were equipped with instruments for main production and operation parameters, such as solved oxygen, sludge concentration, oxidation reduction potentiometer, etc., to reflect the production and operation condition in real time.

During the Reporting Period, the effluent quality after wastewater treatment by the Group reached level A of the first class standard of *Emission Standard of Pollutant for Urban Sewage Treatment Plant (GB18918–2002)* and the Group was not involved in any action arising from violation of laws and regulations concerning product and service.

During the Reporting Period, the Group also introduced a smart inspection system in the wastewater treatment business segment to enhance inspection of the production process. The system has been implemented in the water supply business segment on a trial basis since 2020, and full coverage of the system in the Group's water supply and wastewater treatment business was achieved during the Reporting Period.



### Case: Scan the Intelligent Inspection system and get small benefits

To motivate employees and raise inspection quality and efficiency, the Group has independently developed the Intelligent Inspection system. The system supports repair and maintenance personnel's monitoring of equipment parameters and performance, and operating personnel's monitoring of water quality and volume. There is a QR code at each inspection point, inspectors are required to inspect each point every two hours and scan the QR code, they are reminded to the items to be inspected and the system can accurately monitor water flow, temperature, pressure and other data. In this way, the inspection task is streamlined and standardized, the inspection data is automatically recorded and stored in the system every two hours, which is more efficient and accurate than the previous mode of manual record before entry into the computer.

If any fault is identified during the inspection, the system will automatically generate suggestions for repair to help solve the problem in a closed-loop system of management. If further repair is required or it is beyond the inspector's professional expertise to repair, the inspector may initiate a request through the application, and the system will record the time spent from repair initiation to close. The data collected lay the foundation for planned repair and maintenance at the next step.

In particular, inspectors might get red packets by scanning the system QR code, red packets are funded by Party members' donations, the little token of appreciation is an incentive to inspectors on night shift to motivate all our employees.

### Intellectual Property Protection and Technological Innovation

#### ***Intellectual Property Management***

Technological innovation is a pillar to product and service quality enhancement. The Group is committed to technological innovation and the protection of intellectual property rights. The Group strictly abides by the *Patent Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China* and other laws and regulations and formulated the *Measures for Intellectual Property Management* to protect the Group's intellectual property rights, regulate the management of intellectual property rights, encourage employees to invent and promote the application of technological achievements. There are 5 chapters and 18 articles in the *Measures for Intellectual Property Management*, which specify rules on the definition of intellectual property rights, management bodies and responsibilities, scope of management, rewards and penalties to effectively manage the development, operation and application of intellectual property rights.

As of the end of the Reporting Period, the Group's water supply business was granted 40 intellectual property rights, of which 20 were granted in 2021. A total of 21 intellectual property rights were granted to the wastewater treatment business segment, of which 21 utility model patents were granted in 2021 in respect of technology research and development. The Group's scientific research and innovation have achieved remarkable results, enhancing the Group's core competitiveness.

**Technology Guides Innovation-driven Development**

Innovation drives development. The Group continues to explore new possibilities of technologies and projects by working with tertiary institutions and industrial partners on a number of new projects.

**Case: Sewage Treatment Company worked with Tsinghua University on developing the In-situ Expansion technology in 2021**

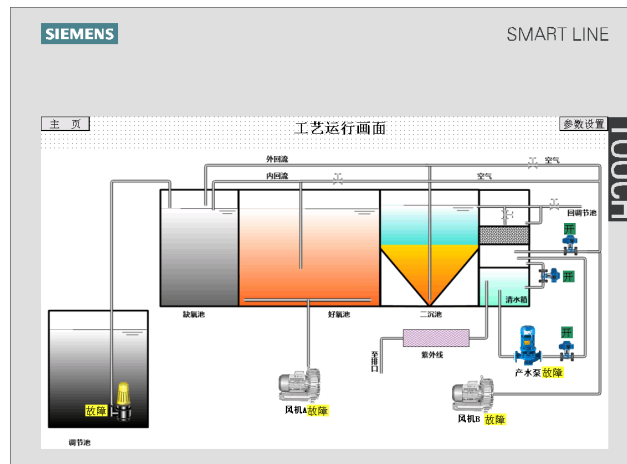
To address the sudden and rapid increase in the volume of water inflow exceeding the design load, and sewage overflow having an impact on the surrounding environment during the flood season, the Sewage Treatment Company worked with Tsinghua University's research institute to complete the in-situ expansion of Naxi, Gulin, Chengdong and Chengnan branches. Nano-flocculation agents were added to significantly improve sewage treatment capacity by about 30%-40% on the basis of the original structures, equipment and facilities, through technical upgrade of some equipment to effectively lower the rate of sewer system overflow in various districts and counties during the flood season and extreme weather condition.



## Case: Integrated domestic wastewater treatment facilities

According to the development plan, the development of 50t/d integrated equipment for sewage treatment was launched in March 2021. The equipment adopts A/O+ Wastewater Filtration Treatment Process with a design load of 50t/d. The equipment is planned to be installed and tested in mid-June when the development is completed. Six innovative technologies have been adopted, including detachable aeration devices that can be reassembled.

The test run after commissioning ensures long-term stable operation with daily treatment capacity of 60 cubic meters, utilisation rate of 120%, attainment percentage of 99.86% and first-class A grade water quality.



### Case: Treating wastewater in the liquor making process for the Brewery City

Wastewater in the liquor making process is a by-product of brewing, which contains high proportion of COD, nitrogen and phosphorus. As a pollution control enterprise in Luzhou City, Xinglu Wastewater Treatment Company actively explores the treatment of wastewater in the liquor making process against the backdrop of “carbon peaking and carbon neutrality” goals: first, treat wastewater in the liquor making process of breweries to reduce the impact of brewery wastewater discharge on the environment; second, leverage the favorable policies to coordinate upstream and downstream discharge to control pollution. Going forward, the Group will consider building, managing and running a plant specializing in treating wastewater in the liquor making process, while utilizing anaerobic digestion for methane production (boiler, power generation, etc.) and water source heat pump to build a “conceptual wastewater treatment plant”.



### Information Security and Privacy Protection

The Group attaches great importance to the protection of customer privacy. *The Integrated Business Charging System Management Measures* formulated by the Group clearly stipulates that employees are not free to provide information such as user names, telephone numbers and ID cards in the system to the public, and strictly required employees to follow the management measures. For employees who have access to the user system, the Group has signed confidentiality agreements with them and provided annual training on privacy protection to relevant personnel. If a customer requests to inquire about his or her water usage, the Group will ask the customer to present his or her water card or identification documents and verify his or her identity before inquiring about the information, in order to strictly protect the privacy of each customer.

### GREEN OPERATIONS AND SUSTAINABLE DEVELOPMENT

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

#### Focusing on Emissions Management

The Group optimized the emission management strictly in accordance with the laws and regulations and emission standards such as *the Environmental Protection Law of the People's Republic of China*, *the Law on Prevention and Control of Air Pollution of the People's Republic of China*, *the Law on Prevention and Control of Water Pollution of the People's Republic of China*, *the Law of People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, *the Standard for Pollutant Discharge of Urban Sewage Treatment Plant (GB18918-2002)*, and *the Standard for Operation and Maintenance Quality Assessment of Municipal Wastewater Treatment Plant (CJJ/T228-2014)*.

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

#### **Management and Reduction of Greenhouse Gas and Exhaust Gas**

##### *Water Supply Business*

The consumption of electricity for production and office is the main source of greenhouse gas emission from the water supply business of the Group. During the Reporting Period, we adopted a number of measures to reduce greenhouse gas emissions. For specific measures, please refer to "Strengthening of Resource Management" in this Report.

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

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

### *Wastewater Treatment Business*

The consumption of electricity and use of fuel for production and office, and the methane gas arising from wastewater treatment are the main sources of greenhouse gas emission from the wastewater treatment business of the Group. Regarding this type of emissions, the Group adopted multiple energy-saving measures. For details, please refer to “Strengthening of Resource Management” in this Report.

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

### **Waste Management and Emissions Reduction**

The Group strictly complied with *the Management Measures for Duplicate Form for Transfer of Hazardous Waste, the Measures for Preventing Pollution by Hazardous Wastes of Sichuan Province, the Identification Standards for Hazardous Wastes-General Specifications (GB 5085.7-2007), the Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001), the Technical Specifications on Identification for Hazardous Waste (HJ/T 298-2007)* and other relevant laws and regulations, internally formulated *the Management System for Hazardous Waste, the Hazardous Waste Contingency Plan, and the Hazardous Waste Management System of Xinglu Wastewater Treatment Co., Ltd.*, and established a sound waste management mechanism, achieving compliance and orderly disposal of wastes.

The Group has established a sound waste management mechanism and conducted centralized collection and classified storage of the wastes, ensured the consistency between the relevant accounts and the fact, standardized records, and carried out compliance disposal. We established the waste reporting and registration system to investigate and register the type, amount, concentration, means and destination of discharge of the wastes, and established the pollution source files for reporting and registration. We implemented the quantitative management system for waste discharge, established quota indicators for waste discharge, and incorporated waste discharge quota into the production plan and technology management.

### *Water Supply Business*

At present, the hazardous wastes generated by the water supply business of the Group mainly include organic solvents, inorganic cyanide, strong acid, strong alkali, total phosphorus, total nitrogen, heavy metals, chromium substances, volatile phenols, etc. We formulated various measures for the management of hazardous wastes generated by the water supply business:

- Set up a seepage-proofing and leakage-proofing storage for hazardous wastes, build cofferdam at the corresponding storage points, and store hazardous wastes by category, indicating the type, hazard and weight. Reagent bottles containing hazardous wastes were uniformly disposed according to the disposal method of hazardous wastes;

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

- Formulate hazardous waste management systems and hazardous waste emergency plans, and specify the responsibilities of each person through announcement conference;
- Establish *the Hazardous Waste Record*, and the detectors truthfully filled in the amount of hazardous wastes generated, and the monitoring station made statistics on a quarterly basis. At the end of the year, the actual amount was counted twice, and it was uniformly handed over to a qualified third-party organization for centralized processing.

Non-hazardous wastes arising from the water supply business of the Group mainly include the dry sludge cake, containers storing non-poisonous reagent, and domestic wastes arising from the production. For the management of non-hazardous waste arising from water supply business, we adopted a number of effective measures:

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

### *Wastewater Treatment Business*

Hazardous wastes arising from the wastewater treatment business of the Group were mainly from the 11 types of waste chemicals arising from water quality inspection and test, including COD, ammonia nitrogen, total phosphorus, total nitrogen, BOD, coliform, petroleum, anionic surfactant, waste packaging, waste chemicals, and waste engine oil, which were all delivered to a third-party organization for transfer and disposal.

The non-hazardous wastes generated by wastewater treatment business of the Group are mainly domestic sludge generated by wastewater treatment. Although domestic sewage treatment residue sludge is not a specific type in the national list of hazardous wastes, the Group still refers to the implementation of hazardous waste management, and strictly follows relevant requirements for centralized collection, classified storage, consistent accounts, standardized records, and compliant disposal.

The following treatment measures are mainly adopted for non-hazardous wastes management:

- Concentrate and dehydrate the sludge before delivering to a qualified third-party landfill for unified sanitary dumping to realize harmless disposal of the sludge;
- Reduce water content of the sludge through sludge drying and centralized treatment to reduce the mass and volume of the sludge, realizing the reduction of the sludge.

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

Name of Indicator	Unit	2021	2020	2019
Total emission of greenhouse gas emission <sup>1</sup>	ten thousand tCO <sub>2</sub> e	<b>12.87</b>	17.44	16.02
– Direct emission of greenhouse gas emission	ten thousand tCO <sub>2</sub> e	<b>4.03</b>	–	–
– Indirect emission of greenhouse gas emission	ten thousand tCO <sub>2</sub> e	<b>8.84</b>	–	–
Greenhouse gas emission density <sup>2</sup>	tCO <sub>2</sub> e/RMB million	<b>93.68</b>	69.16	77.51
Generation of hazardous waste	ton	<b>48.08</b>	42.84	31.75
Density of hazardous waste generation	kg/RMB million	<b>34.98</b>	16.99	15.36
Generation of non-hazardous waste	ten thousand tons	<b>11.65</b>	21.34	11.38
Density of non-hazardous waste generation	ton/RMB million	<b>84.79</b>	84.62	55.05

### Noise Management and Reduction

Noise is an important factor in causing environmental pollution and damaging employees' health, we are aware of this hazardous factor in its control and prevention. The Group manages the discharge of noise generated by the Group in strict compliance with the *Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution*. The Group mainly generates construction noise, including mechanical noise, construction noise and construction vehicle noise. The Group mainly uses construction machinery, such as excavators, in construction projects. Construction noise mainly includes random noise from sporadic knocking, loading and unloading vehicles and dismantling formwork, etc., as well as traffic noise from construction vehicles. Mechanical noise has the greatest impact on the environment among all forms of construction noise pollution.

<sup>1</sup> Greenhouse gas emissions calculation method:

Direct greenhouse gas emissions: the Company's energy consumption is multiplied by the corresponding emission factor, and the emission factor refers to ① *China Energy Statistical Yearbook* ② *IPCC2006*;

Indirect greenhouse gas emissions: Multiply the amount of electricity purchased by the Company by the corresponding emission factor, and the emission factor refers to the *Guidelines for the Verification of Corporate Greenhouse Gas Emission Reports (Trial)* of the Ministry of Ecology and Environment;

Total GHG emissions: The sum of direct GHG emissions and indirect GHG emissions.

<sup>2</sup> Since the operating income of the Group in 2021 changed significantly compared with that in 2020, the density indicators change significantly compared with the data in previous years, the same below.



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

The Group has taken a number of measures to control and prevent noise:

- We opt for “low noise” equipment in purchasing, plan the construction time reasonably and forbid construction at night. If noisy processes are required in non-stop construction, the approval of local environmental protection and urban management authorities should be sought before notifying neighbouring residents and entities to avoid disputes with residents caused by noise;
- Methods with lower noise level should be adopted during the construction as far as possible, construction vehicles should use light for warning, and honking at night is forbidden;
- Concrete mixers will not be placed on site, and temporary noise reduction measures, e.g., setting up temporary sound barriers, will be taken if sensitive points for other fixed construction machinery cannot be avoided in the neighbourhood;
- Strengthen equipment repair and maintenance and management of construction and transportation vehicles, the number and density of cars in the construction area are reduced as far as possible;
- Construction entities should strengthen the communication and liaison with neighbouring entities and residents, explain the necessity and significance of the project construction, convince the affected people, raise public awareness and win their understanding and support. Construction entities will also strengthen employee education to raise construction workers’ awareness in environmental protection, well-organized and well-managed construction.

### **Wastewater Management and Emissions Reduction**

We carried out the drainage management strictly in accordance with the laws and regulations such as *the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002)*, *the Technical Specification for Operation, Maintenance, and Safety of Municipal Wastewater Treatment Plant (CJJ60-2011)*, *the Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143)*, *the Opinions about Deepening Environmental Monitoring Report and Improving Environmental Monitoring Data Quality*, *the Regulations of Drainage Management of Sichuan Province*, and *the Regulation of Urban Drainage and Sewage Treatment*. We discharged the bottom mud arising from water production strictly in accordance with the provisions, recycled the supernatant of the bottom mud after concentration, and made the slurry at the bottom into mud cake through centrifugal dewatering before delivering outside for harmless disposal, to reduce the pollution on water resources during drainage. The Group’s two segments, water supply business and wastewater treatment business, are engaged in wastewater management and emission reduction. The water supply business mainly improves the efficiency of water usage by increasing control over the rate of self-water consumption. The wastewater treatment business segment mainly discharges wastewater into the wastewater treatment system for centralized treatment to meet the standards before discharging it.

### Strengthening Resource Management

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

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

#### **Water Supply Business**

- The Group paid close attention to strengthening process supervision and management, and required all water supply plants to establish daily tracking records and handle and solve problems found in a timely manner. The power consumption of each water plant was monthly analyzed on a year-on-year basis, month-on-month basis, and compared with the theoretical power consumption to ensure that the energy consumption indicators are normal;
- Strengthen the transformation, update and maintenance of equipment to effectively improve the production efficiency and reducing the electricity consumption of water intaking;
- The power consumption target was set according to the pump efficiency of each water plant and in combination with the calculation of water supply at different districts and different pressures, and the monthly and annual power consumption targets were assessed;
- Realize real-time supervision and control of power consumption and data collection through the Internet + production management, and discover data exception in a timely manner and deal with it. Possessing the statistical analysis of data over the years was conducive to finding out the laws of the data, which greatly improved the work efficiency, thus reducing the power consumption.

#### **Wastewater Treatment Business**

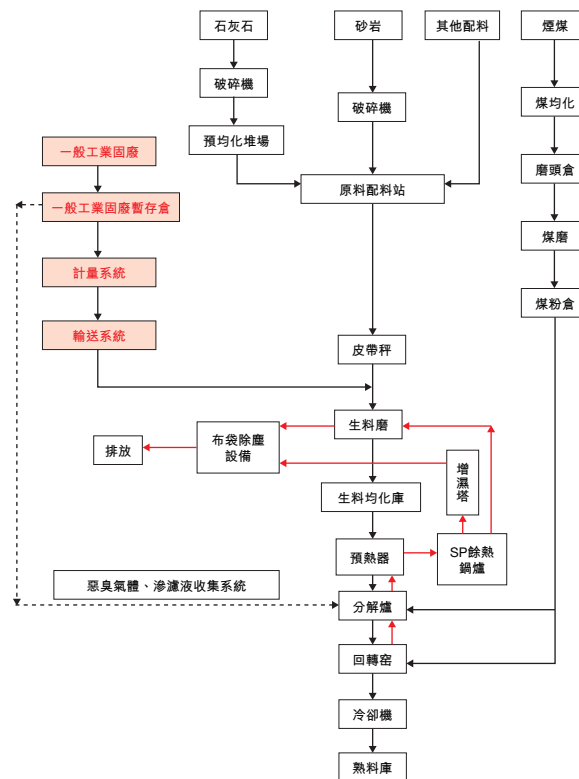
- Establish *the Compilation of Production Management System* and *the System of Monthly Statement of Production Energy Consumption*, and hold production and operation analysis meeting every month to understand the energy consumption changes and reasons therefor in depth, so as to further optimize the resource utilization;
- Enhance the use of new technologies to reduce energy consumption during the production and reduce greenhouse gas emissions.

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

- Reduce the electricity consumption by controlling the dissolved oxygen and sludge concentration during the production;
- Reduce the electricity consumption by starting and stopping the lift pump at high level;
- In terms of energy and other raw materials, the Group conducts daily monitoring, monthly statistics and analysis of consumption, establishes a target assessment mechanism at the beginning of the year, strictly supervises the process, and is committed to improving resource utilization.

### Case: Make sludge into bricks to reuse the resource

In accordance with the requirements of the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes* and other relevant laws and regulations, the Group strictly implements general solid waste pollution prevention measures and strengthens the supervision of sludge disposal in accordance with the principle of "harmlessness, reduction and resourcefulness". The sludge is dried to 60% water content and transported to Red Lion Cement Plant by vehicle, mixed with other raw materials (such as limestone), and then incinerated and cooled in a dry rotary kiln system to become finished products. The disposal method is environmentally friendly and minimizes the potential safety problems and environmental hazards, truly realizing "harmless disposal and resource utilization".



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

### Green Office

The Group is actively implementing green practices and making many efforts to realize green office. In order to ensure the strong implementation of green office, the Group has improved the warehouse management and materials and goods receiving system, making records for receiving and using; clearly specified the rules for the temperature of each office to turn on the air conditioner; required the procurement of materials in accordance with the bidding requirements with bidding records made; formulated specific measures to reduce energy consumption and set up control indicators.

The Group also requires green office practices in the daily office life of employees.

- Prohibit incandescent lights, reasonably set up computer operation mode and air-conditioning temperature to avoid waste of electricity caused by the unnecessary operation of equipment such as lighting, air-conditioning and computers;
- Encourage employees to take low-carbon trips, use public transport to commute, and help save energy and reduce emissions;
- Advocate the use of online office management system and platform, optimize the Group's online approval process, reduce the amount of printing paper and proactively promote the recycling of office supplies;
- The printer uses recyclable toner and ink cartridges, and actively promotes the recycling of office supplies.

Name of Indicator	Unit	2021	2020	2019
Diesel	ten thousand liters	<b>4.70</b>	3.35	4.69
Gasoline <sup>3</sup>	ten thousand liters	<b>25.87</b>	11.30	10.96
Natural gas <sup>3</sup>	ten thousand m <sup>3</sup>	<b>6.18</b>	3.12	3.33
Acetylene <sup>4</sup>	kg	<b>271</b>	390	949
Purchased electricity	ten thousand kWh	<b>14,493.15</b>	13,399.76	12,957.76
Liquefied petroleum gas <sup>5</sup>	kg	<b>1,268.00</b>	2,161.00	4,111.00
Comprehensive energy consumption	ten thousand tce	<b>1.82</b>	1.66	1.62
Comprehensive energy consumption density	tce/RMB million	<b>13.27</b>	6.60	7.81

<sup>3</sup> The group increased the energy consumption statistics of office buildings of sewage treatment business, so the consumption of gasoline and natural gas increased.

<sup>4</sup> Acetylene of the group is used in pipeline inspection and maintenance business. Due to the gradual outsourcing of inspection and maintenance business, the amount of acetylene has decreased.

<sup>5</sup> The group's liquefied petroleum gas (LPG) usage has decreased due to business related impacts.

### Protection of the Environment and Natural Resources

#### ***Water Environment Protection***

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

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

#### *Use and Management of Water Resources*

To ensure the efficient and safe use of water resources, the Group adopted various measures for the Group, the water supply business segment and the wastewater treatment business segment to strengthen water resources management.

##### The Group

- Conduct energy conservation measures during the annual Cherish Water Awareness Week to inform the staff of water conservation methods and measures;
- Regularly arrange for maintenance workers to repair toilet taps and other related appliances to avoid wasting water such as leaking water tanks;
- Popularize water-saving domestic water appliances;
- In the event of a water outage or other emergencies, check that the faucet is turned off to prevent loss of tap water when no one is in the office.

##### Water Supply Business

- The water production and supply plants strengthened the management and control of auxiliary water, adopted the method of recycling the supernatant from the backwash water and sludge water after the recycling by the sludge system as much as possible to reduce the use of auxiliary water.
- Set up daily tracking records to supervise the auxiliary water ratio during the production, monthly conducted contrastive analysis of the auxiliary water on a year-on-year basis and month-on-month basis to ensure that the indicator is normal, and conducted the target assessment in combination with the monthly and annual targets of the auxiliary water ratio.

### Wastewater Treatment Business

- Daily monitor the use of water resources, make monthly statistics and analysis of consumption, strictly supervise the production, and focus on improving water efficiency;
- The wastewater treatment plant supplied water for greening and production by the reclaimed water reuse system to reduce water consumption.

### Water Resource Protection

To protect the water resources, the Group formulated *the Measures for the Management of Health Protection*, improved the water source protection management mechanism, and effectively protected the water source and ecological environment in the place where it operated. During the Reporting Period, the Group adopted various water source protection measures:

- Carry out drills on sudden pollution accidents of the raw water quality, formulate relevant emergency plans, and conduct training and drills for employees to improve emergency response capabilities. During the flood peak period, the Group arranged relevant persons in charge to be on duty, and required the on-duty personnel of each production site to strengthen patrol. The main persons in charge of each production site and the Group kept the communication open and strengthened water source protection;
- The staff on duty at the water intake pumping station conducted daily patrol of the first-level water source protection area to assist the government in cleaning up white garbage. In 2021, the water source protection area cleaned up about 13 tons of garbage and debris;
- Proactively publicize the knowledge of drinking water source protection area and related systems, carry out activities with the theme of “green travel, low-carbon and environmental protection”, and conduct trainings on relevant knowledge, laws and regulations such as *the Law on Prevention and Control of Water Pollution* and *Patrol System of the Water Source* for water plant employees.

### **Environmental Protection**

The Group fully recognizes the importance of protection for environment and biodiversity, and incorporates environment and biodiversity protection factors into the project process from site selection stage, and carries out environmental assessment and fish assessment work to fundamentally reduce the impact of project construction and later operation on the environment and biodiversity.

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

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

- **Minimise the impact on traffic:** project construction will have an inevitable impact on local traffic. Project developers should adequately consider the factor when planning the project work. Rush hours should be avoided in heavy traffic areas (such as transportation at night to ensure smooth traffic during daytime).
- **Reduce dust:** during project construction, mechanical dust during dry season will lead to flying dust affecting the life of neighbouring residents and factories. To minimise the impact of construction dust on environment, water is sprayed on the surface of dusty material during sunny and windy weather to control dust on construction sites, construction workers should also clean the site and the surrounding environment.
- **Dispose wastes from construction sites:** project developers and contractors should liaise with the local sanitation and cleaning departments to clean up domestic wastes from construction sites; contractors should educate their construction workers not to litter and ensure the sanitation of workers' working and living environment.
- **Formulate waste disposal and transportation plans:** project constructors should work with relevant authorities to formulate waste disposal plans. They should also liaise with local transportation authorities to avoid rush-hour traffic, while project developers should work with local transportation authorities to educate drivers on professional ethics, require them to drive along the prescribed route, and carry out surprise inspections to check their implementation. If toxic and hazardous waste is generated during the construction, the project should be stopped temporarily and will be resumed only when corresponding measures had been taken after communicating with local environmental protection and sanitation authorities.
- **Promote the idea of well-managed construction:** as "People Caring Projects", construction entity is required to minimise the impact of construction on neighbouring residents, factories and schools. In response to the impact of construction on environment, the Group negotiates and mediates in a timely manner by organising liaison meetings with construction entities, street committees and property owners.
- **Clean up odour arising from dredging:** Use wet dredging and minimise construction disturbance. After the dredging is completed, the construction site and working plane should be cleaned in a timely manner to reduce odour arising from dredging. A timely cleaning is conducted after the completion of dredging. When the biochemical tank is removed, the existing closed tank cover is opened in the order of clean-up and is closed in a timely manner to reduce the exposure time.

The Group promotes and focuses on guiding employees to establish the green concept of environmental protection, and also actively carries out tree planting work to protect the water and soil environment of the operating sites.

**Case: South Suburban No.2 Water Plant Conducts Tree Planting Activities**

On March 12, 2021, South Suburban No.2 Water Plant organized a tree planting activity with the theme of “establish ecological concept and build a green enterprise”, planting more than 100 trees in South Suburban No.2 Water Plant and practicing green civilization with practical actions.





**Case: Wastewater segment enterprises targeted to help plant trees in villages**

On March 12, 2021, the Group’s subsidiary wastewater sector companies and the Chahe Village Party Branch carried out the “action for green water and green mountains in spring” activity, with party member representatives and youth volunteers participating in a total of 30 people.



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

Name of Indicator	Unit	2021	2020	2019
Amount of water intake for water production and water supply business	ten thousand tons	<b>18,309.68</b>	17,971.00	16,348.69
Total water consumption for production and office	ten thousand tons	<b>554.44</b>	742.90	919.23
Water consumption density	ten thousand tons/RMB million	<b>0.40</b>	0.29	0.44
Consumption of purifier	ton	<b>1,774.27</b>	1,916.03	1,732.83
Utilization rate of bottom wastewater during water production and supply	%	<b>23.76</b>	16.12	17.33
COD emission reduction of urban wastewater	ten thousand tons	<b>2.87</b>	2.05	1.68
BOD emission reduction of urban wastewater	ten thousand tons	<b>1.42</b>	0.92	0.81
Ammonia nitrogen emission reduction from urban wastewater	ten thousand tons	<b>0.33</b>	0.23	0.20
Total phosphorus emission reduction of urban wastewater	ton	<b>429.60</b>	299.17	283.20
Amount of office wastewater discharge	ten thousand m <sup>3</sup>	<b>19.30</b>	19.01	23.11
Number of environmental protection trainings organized or attended <sup>6</sup>	time	<b>233</b>	79	57
Number of personnel attending environmental protection training <sup>6</sup>	person-time	<b>6,348</b>	2,422	1,473

### Response to Climate Change

Global climate change has become the greatest environmental and development challenges facing mankind in the 21st century. One of the key tasks to realise global sustainable development in the long term is tackling climate change.

As a responsible enterprise, the Group responds actively to the national vision of carbon peaking and carbon neutrality and makes our contribution to tackling climate change by building a robust ecosystem and promoting green development. Based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and *Guidance on Climate Disclosures in accordance with TCFD Recommendations* released by Hong Kong Stock Exchange, this section sets out our efforts and future direction for tackling climate change around four thematic areas of management, strategy, risk management, and metrics and targets.

<sup>6</sup> In 2021, Xinglu Water welcomed the central environmental inspector. The Xinglu Wastewater, 6 sub-companies and hosting companies increased the training of environmental protection. Therefore, the number and person-time of environmental protection training increased significantly compared with previous years.

### **Governance**

Regarding governance around climate-related risks and opportunities, TCFD provides two disclosure recommendations concerning the Board of Directors and the management respectively. According to the Group's ESG governance framework, on climate change topics, the Board of Directors is required to consider climate-related issues when reviewing and directing strategies, critical action plans, risk management policies, annual budgets and business plans; setting the organisation's performance targets; monitoring their implementation and execution; and supervising major capital expenditures, acquisitions and spin-offs. The Board is also required to monitor and supervise how far the targets are met when tackling climate-related issues. The Strategy Committee is responsible for developing the Group's operating targets and long-term strategy, making recommendations on key issues, and supervising the implementation of annual operation plans and proposals. The Group has also established an ESG Task Force to define the roles and responsibilities for climate change management and targets and report to the Execution Committee.

### **Strategy**

Climate-related risks can be classified into two major categories of risks related to the transition to a lower-carbon economy and risks related to physical impacts of climate change. Transition risk may entail policy, legal, technology, market and reputation risks; while physical risks can be driven by acute risks (events such as floods and typhoons) or chronic risks (longer-term shifts in climate patterns such as sustained high temperatures and sea level rise).

Regarding the policy and legal risks during transition, as the community is increasingly aware of the climate change and policies are being implemented, energy prices are rising, use of energy is being capped, coverage of traded greenhouse gas (GHG) emission has been expanding or other regulatory requirements on environmental protection have been enhanced in places where we operate, all these changes will lead to increasing operating costs, we will therefore continue to focus on the impact of climate change on the Group's business and adequately respond to policy changes.

With respect to acute physical risks, we are concerned about the impact of extreme weather events on our production and operation, and identify various natural disasters, extreme weather events or adverse weather conditions our operation is exposed to, which are mainly reflected in:

- Extreme rainfall can affect the Group's water source and quality, causing turbidity to rise. The Group's production plan and product delivery can also be affected due to the direct disruption to construction sites, production equipment, people's commute and transportation;
- The risk that the Group's pipes will burst due to thermal expansion and contraction when temperatures plummet under extreme weather, our guaranteed production might be affected and we might not be able to operate as planned.

### **Risk Management**

The Group has identified and assessed the management process of climate-related risks in light of the characteristics of the Group's industry and actual situation. The Group is aware of the risk that environmental and climate-related risks can lead to operational and financial risks. It has formulated emergency plans for identified climate-related risks to specify emergency approach and mechanism. Annual emergency drill is carried out to enhance the speed and level of emergency response and handling, and ensure emergencies are dealt with promptly and effectively to prevent aggravating impact.

### Case: The Group's emergency drills in 2021

To ensure safe and smooth water supply, the emergency repair capability of the urban water supply system was tested. On the night of 5 August 2021, Water Group organised “2021 urban water supply pipes double-blind emergency drill” at Section 3, Lan'an Avenue, Naxi District. Water Group's leaders and relevant staff, as well as personnel from water supply branch at Naxi District participated this drill.

A simulated emergency was identified at the drill site and immediately reported, the emergency plan was launched at once, water supply was effectively co-ordinated and water suspension notices were released. Emergency repair team arrived at the drill site immediately to conduct a repair, water passed the water quality test after emergency repair, and water supply was fully resumed in the shortest possible time to conclude the emergency drill. The emergency repair was conducted in an orderly and efficient manner throughout the process from the receipt of a report to the resumption of water supply.

When the emergency drill had completed, the drill commander concluded and commented on the drill and made more requirements, especially during the summer when water supply is at its peak. First, availability of manpower, equipment and materials should be guaranteed to be “ready to fight and win in battles”. Second, emergency repair time and efficiency should be improved to enhance capability. Third, emergency plan should be revised promptly in view of the issued identified during the drill. Fourth, emergency drills should be carried out more regularly to ensure safe water supply during the peak of water supply in the summer.

Through the emergency drill, the emergency repair team has fully demonstrated its efficiency and quality. It has also demonstrated the importance of a scientific, reasonable and feasible emergency plan for urban water supply pipes, which is conducive to enhancing abilities to deal with emergencies, standardising emergency command procedure, and improving rapid response and collaboration of the emergency repair team and it has laid a solid foundation for safe and smooth water supply in urban areas.



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

### ***Metrics and Targets***

To measure the climate change, it is important to select appropriate parameters and metrics and set targets for response. According to the Hong Kong Stock Exchange's *ESG Reporting Guide* and considering the Group's situation, we identified climate-related risk indicators related to energy use efficiency, water efficiency, waste emission and GHG emission. The Group has also set targets for energy use efficiency, water efficiency, GHG emission (Scope 1) and GHG emission (Scope 2), and regularly reviews the implementation of these targets.

The Group's targets in energy and water resources management: to improve the effective utilization of energy and water resources, and to maximize the environmental and economic benefits of energy and water resources while satisfying operational activities, and to set a management target for the self-water consumption rate for the water supply business.

The Group continues to promote the concept of energy saving and environmental protection to reduce emissions from the source. We will always aim to promote the process of emissions management and environmental protection as a long-term goal, ultimately realizing the concept of circular economy and following a sustainable development path.

In view of the changing nature of the Group's operating and marketing environment, we will conduct on-going review of our implementation, and adjust our targets and proposed measures when necessary. Going forward, we will continue to improve strategy development, risk management and identification and management of metrics and targets, to tackle climate change in pursuit of sustainable development with various sectors of society.

### FOCUSING ON EMPLOYEES AND HELPING THEM GROW

The Group actively provides a broad platform for employees' development, cares about safeguarding employees' health and rights, integrates the realization of employees' self-worth with the development objectives of the enterprise, and forms an atmosphere of equality, mutual benefit, harmony and unity of "happy work and happy life".

#### Standardizing Employment

##### ***Equal Employment***

The Group strictly abides by *the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Law of the People's Republic of China on the Protection of Minors*, and formulates and improves internal systems such as *the Management of Employee Recruitment, the Management of Labor Contracts and the Management for the Selection and Appointment of Middle-level Cadres*, so as to implement the principle of equal employment, and protect the legitimate rights and interests of employees.

- *Equal Employment*

The Group strictly regulates the recruitment and introduction, selection and appointment to ensure the fairness and transparency of recruitment. The Group formulates the recruitment implementation plan, which defines the recruitment conditions and implementation steps, preliminarily screens the candidates according to the recruitment needs, investigates the professional ability, work attitude, stability and compliance, and resolutely opposes the discrimination based on gender, age, health and other factors, striving to achieve employment equality and diversification. As the end of the Reporting Period, among the 9 Board Members of the Group, there are 3 females, accounting for about 33.3% of the total. Among the 7 members of the Board of Supervisors of the Group, there are 3 female members, accounting for about 43% of the total.

We deepen the reform of the three systems of state-owned enterprises, improve the socialized recruitment mechanism, and achieve full coverage of the Group's public recruitment of employees. According to *the Management of Employee Recruitment*, the proportion of public recruitment of the Group reaches 100%. The recruitment announcement is released to the public through the Southern Sichuan Talent Network and other information disclosure platforms above the municipal level. There are no discriminatory employment conditions in the recruitment process, which fully reflects fairness and competitiveness, and there are no illegal recruitment behaviors. At the same time, we standardize the recruitment and introduction, selection and appointment according to *the Management for the Selection and Appointment of Middle-level Cadres*, achieving transparent operation and fair results. In order to establish a sound management of staff termination, to regulate the Group's employment practices and to fully protect the orderly operation of the enterprise and the immediate rights and interests of the staff, the Group has formulated the "Measures for the Management of Staff Termination", taking into account the relevant laws and regulations and the actual situation of the enterprise.

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

Indicator name		Unit	2021	2020	2019
Total employees		ppl	<b>1,178</b>	1,142	940
Total number and proportion of employees by gender	Male	ppl	<b>792</b>	761	615
		%	<b>67.2</b>	66.6	65.43
	Female	ppl	<b>386</b>	381	325
		%	<b>32.8</b>	33.4	34.57
Total number and proportion of employees by employment type	Full-time	ppl	<b>1,178</b>	1,142	940
		%	<b>100.0</b>	100.0	100.0
	Part-time	ppl	<b>0</b>	0	0
		%	<b>0</b>	0	0
Total number and proportion of employees by age	Age 30 and under	ppl	<b>209</b>	198	181
		%	<b>17.7</b>	17.3	19.26
	Age 31-50	ppl	<b>756</b>	733	614
		%	<b>64.2</b>	64.2	65.32
	Age 50 and above	ppl	<b>213</b>	211	145
		%	<b>18.1</b>	18.5	15.43
Total number and proportion of employees by educational background	Ph.D	ppl	<b>1</b>	1	1
		%	<b>0</b>	0.1	0.11
	Master	ppl	<b>10</b>	10	7
		%	<b>1.0</b>	0.9	0.74
	Bachelor	ppl	<b>296</b>	266	246
		%	<b>25.0</b>	23.3	26.17
	beneath the bachelor-degree level	ppl	<b>871</b>	865	686
		%	<b>74.0</b>	75.7	72.98
Total number and proportion of employees by regions	Sichuan Province	ppl	<b>1,178</b>	1,124	924
		%	<b>100</b>	98.4	98.30
	Chongqing	ppl	<b>0</b>	7	6
		%	<b>0</b>	0.6	0.64
	Outside Sichuan Province and Chongqing	ppl	<b>0</b>	11	10
		%	<b>0</b>	1.0	1.06
Number and proportion of ethnic minority employees	Total number of ethnic minority employees	ppl	<b>41</b>	32	7
	Porportion of ethnic minority employees	%	<b>3.5</b>	2.8	0.74

### ***Safeguarding Employees' Rights and Interests***

In order to fully mobilize the enthusiasm and creativity of employees and build a harmonious labor relationship, the Group formulated *the Compensation Management Measures*, *the Management Measures for Adjustment of Salary Grade and Level*, and *the Management of Total Salary*, and strictly implemented the payment and adjustment of employees' salaries and the verification of salaries of the enterprise according to above normative documents, so as to ensure the implementation of salary management, working-hour management and employee welfare, to fully protect the legitimate rights and interests of employees, and create a good platform for the growth and development of employees.

In terms of compensation management, while formulating a compensation system for employees and setting up a multi-level compensation for employees, the Group set up a compensation structure including basic salary and performance bonus.

In terms of employee welfare, the Group provides employees with educational training, labor insurance benefits, birthday greetings, holiday greetings, employee canteen, labor union organizations and other benefits. In addition, while handling five insurances and one fund for employees signing labor contracts by operation of law, we will additionally handle "employee medical mutual assistance insurance" for each employee and provide transportation subsidies and annual physical examination for employees to protect their rights and interests.

### ***Preventing Child Labor and Forced Labor***

We resolutely eliminate child labor and forced labor. The Group strictly abide by *the Law of the People's Republic of China on the Protection of Minors*, *the Provisions on the Prohibition of Child Labor* and other relevant laws and regulations. We have made it a key rule not to hire any candidates under the age of 18. Job interviewers are required to understand candidates' work experience via enquiries, observation and background check during the job interview and to double check candidates' identity in pre-employment procedures to ensure that we are not recruiting any minors. If violations are found, the Group will actively deal with them to ensure the smooth operation of the Group's talent system.

In terms of working hour management, the Group ensures that employees enjoy various rest and leave rights stipulated by the nation, eliminates forced labor, formulates normative documents such as *the Management of overtime and overtime payment* and *the Management of Employees' Leave*, and implements the employee's leave system in strict accordance with the documents. If working hours exceed the legal working hours stipulated by the nation, the overtime salary will be calculated for the excess part in combination with the relevant systems of the Group.



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

No cases of hiring child labor and forced labor were reported during the Reporting Period within the Group.

Indicator name		Unit	2021	2020	2019
Annual turnover rate of employees		%	<b>2.86</b>	1.77	10.54
Employee turnover rate by gender	Male	%	<b>2.84</b>	1.22	8.96
	Female	%	<b>2.89</b>	2.98	13.71
Employee turnover rate by age	Age 30 and under	%	<b>3.68</b>	3.91	19.78
	Age 30-50	%	<b>3.10</b>	1.83	7.59
	Age 50 and above	%	<b>1.35</b>	0.00	13.27
Employee turnover rate by region	Sichuan Province	%	<b>2.86</b>	1.77	10.49
	Chongqing	%	<b>0.00</b>	0.00	0.00
	Outside Sichuan Province and Chongqing	%	<b>0.00</b>	0.00	12.50

### Employee Development

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

#### **Employee Training**

To strengthen the internal education and training and continuously improve the quality of the staff, the Group, in light of the actual situation, formulated *the Management Measures for Internal Trainers*, which clarified the selection, assessment, management and incentive of internal trainers, effectively giving full play to the important role of internal trainers in the Group's staff training.

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

During the Reporting Period, the Group adopted the training method of combining internal training, external training and on-site investigation and exchange learning, and conducted all-round training for employees from the aspects of comprehensive management ability, safety knowledge, professional knowledge, laws and regulations, so as to enhance the cohesion and centripetal force of cadres and employees. 847 trainings were organized in 2021 with 14,675 participants. Among them, there were 164 training sessions and 693 participants for middle-level cadres and leading groups.

### Case: The water supply company of the Group has carried out the training of “Internet + production management”, making full use of the intelligent water system.

In order to enhance the understanding and operation of the “Internet + production management” mode for staff in water plants, and to realize the goal of centralized control and decentralized management of water plants, in April 2021, water supply companies of the Group, with the theme of “intelligent control and efficient economizing”, organized the training of “Internet + production management” at Beijiao water plants.

The training was presided over by the general manager of the water company and delivered by the director of the Beijiao water plant. More than 30 persons including factory directors, main controllers, relevant technicians and some key employees of the water company participated in the training.

At the training meeting, according to the training requirements and the current water treatment plant management system, the water company respectively explained from three aspects in detail, which including the system of “Internet + production management” mode, function area understanding, function introduction, and indicator management. The scope of the management mode, duty of each position, operation guide, application requirements and various production management approval processes are also clearly defined.



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

Compared with last year, the training activities of the sewage treatment business segment of the Group have been greatly improved. The training works of the whole year have achieved good results, which has laid a foundation for the strong promotion of the management and control of the Xinglu Wastewater. The specific training works include:

- In order to promote employees understanding and mastering the operation process of relevant posts, effectively cultivating compound talents and improving employees' comprehensive quality and ability, the Xinglu Wastewater has formulated *the Notice on Relevant Regulations on Exchange Learning*, which defines the implementation process and requirements of exchange learning. The company adopted Dingding online learning platform, and there are 18 courses released on the platform, including safety production, administration, business etiquette, etc., in which 3,997 employees have been participated.
- Actively promoted all departments, branches (subsidiaries) and trusteeship companies to carry out internal and external training, strengthen the sewage treatment knowledge and increase professional quality for new employees.
- The leaders of the Company led a team to Chongqing University, Chengdu University of Information Science and Technology and Suzhou Drainage Company for exchanging and learning, so as to promote the high-quality development of the Company.
- Organizing middle and senior managers to attend a five-day management ability and professional knowledge training in Chongqing University to improve the management ability and leadership of managers and to build scientific management thoughts.
- Signed a strategic cooperation framework agreement with Chengdu University of Information Science and Technology, and an agreement on co-building a student internship base with the Environment School of Tsinghua University. These two agreements promoted the cultivation of environmental protection talents, promoted the transformation of scientific and technological achievements in the sewage treatment industry, and improved the effectiveness of water environment treatment in Luzhou City.
- Carried out training activities related to vocational skills: in order to improve the professional knowledge and basic operation skills on the mechanical and electrical maintenance for workers, three special skill trainings were organized for mechanical and electrical personnel. In order to improve the theoretical and practical operation ability of laboratory quality inspectors, we carried out special training for laboratory safety knowledge aiming at safety and regulations. In order to improve employees' daily operation, maintenance management and operational ability of online monitoring, four special trainings on automatic monitoring were organized. In order to improve the financial management ability of employees and improve the professional knowledge of financial personnel, employees were organized to Chengdu for three times on financial related knowledge training such as investment and financing, capital management in the digital era and innovative cost strategy.
- We have completed the application of the third-party evaluation organization for vocational skill level identification. There are five types of work applied, including electrician, fitter, instrument maintenance worker, chemical inspector and sewage treatment worker, which have passed the expert review.

### ***Employee Promotion and Assessment***

For the purpose of helping employees to clarify their career development paths, the Group established a dual-channel career development system to provide smooth career development channels. Employees can reasonably choose their own career development path based on factors such as position, level, ability and willingness. In accordance with *the Measures for the Implementation of Performance Appraisal*, the Group carried out assessment monthly, quarterly, and annually and promoted those with excellent performance. In addition, the Group strictly implemented *the Management Measures for Adjustment of Salary Grade and Level*, defining that the salary adjustment standard of employees would implement dynamic management, and organized the supplementary evaluation of the skill level of production operation and business service posts to ensure the fairness and transparency of employee promotion.

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

During the Reporting Period, the Group made a number of system amendments to encourage employees to improve themselves:

- To further standardise management of employees' professional titles and professional qualification certificates, promote the development of various professional talents and upgrade our talent pool and management standard, the Group revised *the Measures for Employees' Competence and Professional Qualifications Management* according to relevant national regulations and our needs. The Measures have been released upon the approval of the Group's Party Committee and General Manager Office.
- The Group requires more intermediate and senior professionals to promote its development. To encourage our employees to participate in further study and professional examinations, the Group released *the Notice on the Subsidies and Rewards to Employees Obtaining Professional Qualifications and Certificates* to specify the demand for various certified (licensed) professionals (licensed safety engineer, registered fire engineer, registered construction engineer, certified public accountant, certified tax agent, registered electrical engineer, etc.) and reward policies for obtaining the qualification certificates.
- Improve the job requirements on middle-level professional management and executives and release *the Measures for Job Qualification Management* to make additional requirements on professional qualifications and thereby replacing the traditional practice of comprehensive management with professional management, and to provide more appropriate talents to support the Group's development.

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

Name of Indicator	Unit	2021	2020	2019
Total number of trainings	time	847	537	154
Total attendees	person-time	14,675	10,040	7,760
Amount of training expenditures	RMB ten thousand	74.03	63.93	67.70
Average training time per employee	hour/person	68.76	103.83	393.50
Average training time per male employee	hour/person	90.85	114.40	312.32
Average training time per female employee	hour/person	69.03	82.70	306.98
Average training time per front-line employee	hour/person	63.07	100.67	387.08
Average training time per mid-level employee	hour/person	181.34	170.43	479.44
Average training time per senior-level employee	hour/person	203.43	141.50	631.14

### ***Safeguarding Health and Safety***

The Group attached great importance to production safety and employee health and safety, strictly complied with relevant laws and regulations such as *the Fire Prevention Law of the People's Republic of China*, *the Law of the People's Republic of China on Work safety*, *the Law of the People's Republic of China on the Prevention and Control of Occupational Disease*, and *the Measures for the Supervision and Administration of Occupational Hygiene in Workplace*, improved production safety and occupational health and safety system, perfected the management of production safety and occupational health systems, and fully did a good job in safety risk prevention and control, to ensure production safety and occupational health of employees.

### ***Putting Production Safety into Practice***

The Group formulated the systems such as *the Safety Production Policy and the Targeted Management Measures, the Management Measures of Assessment for Production Safety Accountability Performance, and the Occupational Health Supervision and Management System*, and constantly improved the safety production standardization system:

- The Group passed the review and certification of OHSAS18001 Occupation Health Safety Management System;
- The Group's headquarter, Hejiang Water, Nanjiao Water, Beijiao Water, the Sewage Treatment Company and Fanxing Environmental have achieved the certification of the safety production standardization (level 2) · and continued to carry out safety and environmental protection work in accordance with enterprise safety production standardization (level 2);
- The sewage treatment business enterprises of the Group carried out comprehensive, holiday, seasonal, professional, and routine safety, environmental protection, and occupational health inspection and hidden risk control on schedule strictly in accordance with the Annual Work Program of Identification of Hidden Risk of Safety and Environmental Protection. During the Reporting Period, the enterprises mainly carried out *The "two festivals-two meetings" comprehensive inspection about safety and environmental protection* · *spring seasonal inspection, comprehensive inspection about safety and environmental protection before the "May Day" festival* · *summer seasonal inspection* · *the "Mid-Autumn Festival-National Day" comprehensive inspection about safety and environmental protection* · *autumn seasonal inspection, etc.*

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

**Case : achieving the certification of the safety production standardization (level 2) to lay a solid foundation for the standardization of production safety**

The Group's headquarter, Hejiang Water, Nanjiao Water, Beijiao Water, the Sewage Treatment Company and Fanxing Environmental have achieved the certification of the safety production standardization(level 2), which represents the Group's standardization of safety production has achieved certain results, so that each production process is in line with the requirements of production safety laws and regulations, standards and norms. Each element such as human, machine, material, law, environment, measurement is in a good state of production, so as to provide a solid foundation for the standardization of safety production construction.



**Case : the Group carried out safety inspections**





### **Safeguarding Employees' Health**

The Group strictly abides by *Labour Law of the People's Republic of China* · *Code of Occupational Disease Prevention of the People's Republic of China* · *Employers' Labor Protection Products Regulations* and other relevant laws and regulations and established a perfect occupational health and safety system, and continuously improved the working environment and office environment for employees. During the Reporting Period, we took various measures to effectively implement safety responsibilities:

- Organize the employees to sign *the Safety, Environmental Protection, and Occupational Health Responsibility Agreement* every year;
- Carry out safety education and training for personnel responsible for occupational health, including training for new employees and annual refresher training for older employees;
- Develop annual work plan for staff occupational health training and carry out occupational health related training according to the plan, including training on handling of hazardous waste products and special training on improving water quality, etc.;
- Regularly organize safety education training and safety emergency drills, including anti-terrorism emergency drills, Yangtze River raw water pollution emergency plan drills, production emergency drills, etc., to improve employees' awareness of production safety and self-protection ability;
- Provide employees with necessary protective equipment, such as oxygen breathing apparatus, protective clothing and other protective equipment at all relevant production sites;
- Organize annual comprehensive physical examination for employees, insist on monitoring the hazard factors of occupational diseases and carrying out physical examination for employees every year to effectively safeguard occupational health of the employees. The occupational health management team of the Group organized occupational health physical examination for front-line employees before, during and after duty based on the practices of the Group;
- The Group is in strict accordance with *the Technical Specifications for Occupational Health Surveillance (GBZ188-2014)*, and establish an occupational health management team to strictly implement the Group's occupational health management system;
- Every year, a testing organization with relevant qualifications is hired to test the occupational hazards at each production site, and the test results show that the occupational hazards to which the Group is exposed during the production process meet the safety standards.

During the reporting period, the Group had one work-related accident, which occurred when an employee was working outside and was diagnosed and confirmed to be a minor injury. After the accident, all employees have been reminded to pay attention to safety. In 2021, 680 hours of working days lost are due to occupational injury.

Save from those disclosed above, there have been no other work-related fatalities of our employees in the last three years.

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

Name of Indicator	Unit	2021	2020	2019
Investment in safety production	ten thousand RMB	<b>643.73</b>	769.94	801.62
Times of safety education and training	time	<b>219</b>	169	225
Number of employees attending safety education and training	ppl	<b>3,662</b>	3,612	4,539
Coverage rate of occupational disease examination	%	<b>100</b>	100	100
Coverage rate of special examination for the females	%	<b>100</b>	100	100
Coverage rate of occupational disease examination	%	<b>100</b>	100	100
Number of work-related accidents	time	<b>1</b>	2	1
Number of workers died due to occupational injury	ppl	<b>1</b>	2	2
Number of working days lost due to occupational injury	d/a	<b>85</b>	255	261

### Caring for Employees

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

### Promoting Democratic Principles

The Group paid close attention to the construction of democratic management. The labor union of the Group has established *the Management Measures of Staff Representative Assembly* to smooth the channels of democratic management.

During the Reporting Period, we regularly convened the employee representative congress, and organized employee representatives to participate in the one reporting and two appraisals by the Group's leading group, and the reporting of the middle-level cadres on their work and honest governance, to listen to the voices of employees. All major matters concerning the vital interests of employees are discussed and voted in the staff representative assembly so that we can fully listen to the views of staff representatives, play their right to participate in politics and effectively protect their legitimate rights and interests to ensure the overall stability of the workforce. There are no petitions or group incidents in 2021. In 2021, the labor union committee meeting was held 11 times and the staff council was held 4 times to consider the topics on the implementation of special working hours system for some positions and on the regulation of the signing of labor contracts and payment of the Insurance and Housing Fund for the employees of the Group.

We published the information on the enterprise's production, operation, management and development in a timely manner through a combination of internal and external disclosure, so as to enable the employees to understand the Group's dynamics and obtain their concerned hot information, and enable them to effectively integrate into the Group's development and management, jointly promoting the Group's long-term development.

### ***Helping Employees Overcome Difficulties***

We paid attention to the difficulties of employees, insisted on helping employees in difficulties, and took practical actions to dedicate love to employees in difficulties to reduce their life pressure, forming a corporate culture of mutual help and love. During the Reporting Period, the Group's labor union further clarified the main causes of hardship and the needs for assistance for workers in hardship in accordance with the filing standards of the All-China Federation of Trade Unions' Measures for *the Management of Workers' Files in Hardship*, and implemented assistance measures and clarified persons responsible for assistance. We have implemented file management personnel, standardized the management of difficult workers' files, and made practical and detailed precise help for difficult workers, aiming to seek greater benefits for employees and build a bridge of affection between trade unions and employees. In 2021, all workers in difficulty have been released.

We enhanced inclusive services. The Group's labor union actively promoted the work of inclusive services for members, conducted cell phone photography training, and organized employees to participate in inclusive service activities and hobby classes conducted by the municipal labor union; we provided 487 employees with "Employee Hospitalization Medical Mutual Insurance", "Female Employee Major Illness Mutual Insurance", "Female Employee Major Illness Plan B", "Employee Accidental Injury Insurance" and "Employee Major Illness Insurance". In 2021, 42 hospitalized employees have applied for benefits, of which 42 have received benefits, totaling approximately 77,353RMB.

### ***Organizing Recreational and Sports Activities***

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

### ***Water Supply Business Segment***

- We opened a column with the theme of "tribute to the most beautiful workers" and "100 years of glory, the party flag flying", promote the model workers, excellent communist, job competent through the WeChat public account, website and other carriers in order to vigorously promote the spirit of model workers and craftsmanship;
- On the basis of extensive consultation with the staff, the Group formed three new interest groups of basketball, table tennis and badminton, so as to activate the cultural and sports life of the staff, stimulate their interest in learning, promote the mental and physical health of cadres and enhance team spirit;
- We combined with the "five aspects" construction of employee volunteer service, and actively carried out volunteer services;
- In May, we organized a job skills competition · combining the current practical needs of enterprises, including intelligent water meter installation, budget design and news writing · by which we promoted staff learning and industry and let skills competition become an important initiative to enhance labor skills and promote technological innovation;

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

- In May, we organized our staff to participate in the Fun Games • Celebrating International Workers' Day held by Luzhou Xinglu Water (Group) Co., Ltd. and won the third prize in the group;
- In June, we organized staff to participate in the "We are all dreamers" video shooting flash mob conducted by Luzhou Xinglu Water (Group) Co., Ltd.;
- In October, we organized our staff to participate in the "Luzhou Fourth Staff Dance Competition", "Luzhou Eighth Sports Meeting" and "2021 Staff Sports Meeting • State-owned capital system celebration for the CPC centenary" and all won the first prize as a team, which further enriched the cultural life of the staff and enhanced their physical quality and cohesion.

### *Sewage Treatment Business Segment*

- Health check-ups for all employees, special medical check-ups for female workers, medical check-ups for personnel in occupational health hazards, and physical fitness activities held.
- In March, we carried out the "Women's Heart to the Party, Walking on a New Journey" theme activities for Women's Day, and the production of handicrafts and small life skills were displayed.
- In May, we rehearsed the program "Backlight" and participated in the cultural performance of the Municipal Federation of Trade Unions to celebrate May 1st International Labor Day.
- In June, we carried out "World Environment Day" publicity activities.
- In July, we carried out "Military and civilian working hand in hand" relationship building activities to visit the troops in Lu.
- In August, we carried out the activity of "sending coolness in summer and warmth in winter".
- In August, we carried out the activity of "sharing the deep love between fish and water and promoting the integration of the military and the people" to condole with the retired and active military personnel of the Group.
- In September, we carried out a reading and sharing session on "Learning the Party's history, expressing gratitude to the Party, understand theories and do practical work" reading sharing activities.
- In November, the Group carried out the official writing competition and organized staff to participate in the "Luzhou City Staff Dance Competition"; participated in the Luzhou City 8th Session of the "Struggle for a Century, Set Sail for a New Journey" praise advanced activities in July.

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

### ***Caring for Female Employees***

In order to further inherit the corporate care culture, safeguard the legitimate rights and interests of female employees in accordance with the law, and increase the happiness index of female employees, with the concept of “Health, Happiness, Passion and Fun”, and helping female employees build up the spirit of “self-respect, self-confidence, self-reliance and self-improvement”, during the Reporting Period, the Group cared for female employees through carrying out various activities to enhance their sense of belonging and happiness.

- Carried out the “Women’s Heart to the Party, Walking on a New Journey” theme activities for Women’s Day;
- In order to improve the professional skills of female workers, a “Charming and Happy Women” activity was organized in March;
- Care for female employees giving birth, and regularly organize gynecological examination for female employees to care for their physical and mental health;
- Carried out display activities for female employees, such as the production of handicrafts and small life skills displayed;
- Carried out the “Love in Epidemic” care activities for female workers, “Joint Guardianship” female workers’ rights and interests protection activities, etc. to care for female workers’ health and safety and protect their legitimate rights and interests;
- Created a lounge for female workers and always put care and concern for female workers into practice.

### **WIN-WIN COOPERATION AND PUBLIC WELFARE ACTIVITIES**

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

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

As a leading water company in southern Sichuan, the Group is committed to actively promoting the common progress of the industry and assisting our peers in controlling indicators. In the process of continuous improvement of production quality and efficiency control, the Group has made full use of automation, information technology and other technological means to continuously improve the level of enterprise refinement management and achieve the production management goals of energy saving and consumption reduction, staff reduction and efficiency increase, and developed “Internet + production management” system, “intelligent inspection” system and other intelligent water-related products and services. The Group hopes to share excellent practical achievements to the industry and drive the industry to make progress together, and expects to provide peers with one-stop solutions for smart water operation.

### Supplier Management

During the Reporting Period, the Group continued to strictly comply with *the Supplier Management Measures, the Materials Management Measures* and other internal systems, and optimized the materials procurement process. In order to further standardize the material management and supplier management, during the Reporting Period, the Group revised the system related to material management, deleted the original *Management Measures for Material Procurement, Management Measures for Material Statistical Analysis* and other systems, and consolidated them into the *Management Measures for Material* to further standardize material management and supplier management.

The Group optimized the selection and assessment process of suppliers from multiple perspectives such as the supplier access, supervision of suppliers, evaluation of suppliers, and performance of environmental and social responsibilities by suppliers, and made progress together with supplier partners.

### Supplier Access

The Group established the supplier screening process, adopted methods such as public bidding and comprehensive evaluation, and evaluated and graded the suppliers related to lawful operation, enterprise strength, supply quality, production and operation capabilities, material cost performance, after-sales service, and whether it has obtained ISO9001, ISO14001 management system certification, etc.. The Group listed the suppliers approved on the *List of Trial Suppliers* for one year of trial. and listed the suppliers passing the trial on the *List of Qualified Suppliers* and established the suppliers' files after quality and service tracking. The Group organize the personnel of relevant departments for field investigation and review to main material suppliers or important material suppliers, if necessary.

During the Reporting Period, the Group conducted open competitive negotiations to identify the main material suppliers such as intelligent water meters, spiral steel pipes, PPR/PE pipes, flow meters, small valves and thin-walled stainless steel pipes, and conducted annual reviews to identify various types of suppliers to establish a list of qualified suppliers and trial suppliers.

### Case: Determination of shortlisted suppliers of spiral steel pipes

In accordance with the requirements of the *Materials Management Measures* and the *Supplier Management Measures* of the Group, the shortlisted suppliers are determined by public competitive consultation for the expiring main material suppliers, and a pool of qualified suppliers is established.

In May 2021, the Material Supply Department organized relevant departments to discuss the bidding documents for the new round of competitive consultation for the establishment of spiral steel pipes supplier pool.

In June 2021, the bidding documents were submitted to the Group for approval of major legal matters and reported to the General Manager's Office of the Group for consideration and approval.

On June 30, 2021, the Group entrusted Luzhou Industrial Investment International Bidding Co., Ltd. to act as an agent to publicly list the 2021 spiral steel pipe supplier shortlisting project on China Procurement and Bidding Network and Luzhou Public Resources Transaction Center online.

On July 13, 2021, the bidding project of spiral steel pipe suppliers was formally opened for evaluation, and the four suppliers with the top four scores were identified as candidate suppliers, which include Chengdu Meiyuan Building Materials Co., Ltd., Ziyang Petroleum Steel Pipe Co., Ltd., Sichuan Shuangqing Spiral Steel Pipe Co., Ltd., Sichuan Ruifeng Spiral Steel Pipe Co., Ltd..

On August 12, 2021, the signed annual procurement contracts with the suppliers above, and included them into the qualified supplier pool for management.

### ***Supervision of Suppliers***

The Group regularly implemented dynamic management of the suppliers, and mainly supervised them in the following aspects:

- When the suppliers are publicly solicited to build a pool or invited to bid, the technical/quality requirements to be met by the products provided by the suppliers are clearly defined in the bidding documents, and the technical/quality standard terms of the products are reflected when the procurement contract is signed.
- Conduct quality inspection of the products delivered.
- Collect performance and quality deposits, and notify suppliers of product quality problems within the warranty period.
- Conduct dynamic management of suppliers, develop daily assessment mechanism, review suppliers in conjunction with annual reviews, and eliminate the best from the worst.

In addition, in order to cope with the demand for price adjustment from suppliers due to the increase of raw material market prices in 2021, the Group has strengthened daily communication and negotiation with suppliers and secured the stability of raw material prices while safeguarding the supply of materials.

### ***Evaluation of Suppliers***

The Material Procurement Management Committee of the Group reviewed the suppliers every year and revised the *List of Qualified Suppliers* based on the results of the review. Suppliers failing to meet the production and procurement requirements upon confirmation will be eliminated from the list of suppliers. At the same time, the Group regularly conducts quality tracking surveys on suppliers' products as the basis for daily evaluation and assessment of suppliers.

During the Reporting Period, the Group further strengthened the daily assessment of suppliers, not only deducting points and fines, but also rewarding suppliers actively collaborated with the Group with extra points. For example, in the repair of DN1000 burst pipe on Qintai Road in Longmatan District, Chongqing Hengsheng Wusishi Pipeline Equipment Co., Ltd. organized the repair of the pipe overnight with a hafta, and promptly sent a special vehicle to be escorted from Chongqing to the repair site by the person in charge personally, which ensured the timeliness of the repair and the Group decided to give it an additional 5 points reward.



### ***Management of Suppliers' Environmental and Social Performance***

The Group paid close attention to the performance of environmental and social responsibilities by suppliers, and developed a number of measures to optimize the management of supplier performance on environment and social aspects.

- Select suppliers with high credibility, comprehensive strength, products meeting environmental requirements, guaranteed quality and timely after-sales service through comprehensive scoring according to the *Material Management Measures* and *Supplier Management Measures* formulated by the Group;
- Require suppliers to provide valid supporting documents such as quality (environmental) management system certification, special equipment design or manufacturing licenses, certification for products that must be included in mandatory certification as stipulated by the state, and water-related health license approvals;
- The Group has *Material Management Measures* to identify ESG risks in all aspects of planning, procurement, acceptance, warehousing, contract and assessment;
- Sign environmental, occupational safety and health management agreements with suppliers at the same time when signing procurement contracts to effectively control the environmental factors and occupational health and safety risks involved in products and transportation;
- If a supplier pollutes the environment or violates the labor standards, we will downgrade or cancel its qualification depending on the extent of the violation.

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

Name of Indicator		Unit	2021	2020	2019	
Total number of suppliers		quantity	<b>194</b>	198	146	
Number of suppliers by region	Number of suppliers in Sichuan Province	quantity %	<b>131</b> <b>68</b>	153 77	103 71	
	Number of suppliers in CHongqing	quantity %	<b>12</b> <b>6</b>	12 6	16 11	
	Number of suppliers in other mainland regions than Sichuan Province and Chongqing	quantity %	<b>51</b> <b>26</b>	33 17	27 18	
	General equipment	quantity %	<b>20</b> <b>16.5</b>	30 22.7	18 20	
	Professional equipment	quantity %	<b>16</b> <b>13.2</b>	21 15.9	23 26	
Number and ratio of suppliers by category-wastewater treatment business	Special equipment	quantity %	<b>0</b> <b>0</b>	0 0	0 0	
	Safety suppliers	quantity %	<b>3</b> <b>2.5</b>	4 3.0	3 3	
	Production reagent	quantity %	<b>14</b> <b>11.6</b>	10 7.6	8 9	
	Auxiliary and logistics materials	quantity %	<b>45</b> <b>37.2</b>	50 37.9	16 18	
	Service outsourcing	quantity %	<b>23</b> <b>19.0</b>	17 12.9	22 24	
	Number and ratio of suppliers by category-water supply business	Main material	quantity %	<b>46</b> <b>63.0</b>	40 60.6	29 52
		Auxiliary materials	quantity %	<b>11</b> <b>15.1</b>	7 10.6	5 9
		Important materials	quantity %	<b>6</b> <b>8.2</b>	4 6.1	7 13
		Equipment	quantity %	<b>12</b> <b>16.4</b>	13 19.7	14 25
		Electric	quantity %	<b>2</b> <b>2.7</b>	2 3.0	1 2
Assessment rate of executing relevant practices for the suppliers		%	<b>100</b>	100	100	

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

### Devotion to Public Welfare

Co-prosperity with the community is an important factor in the sound development of our business. Over the years, we have been actively engaged in community welfare activities rooted in the communities where we operate, in order to promote the harmonious integration of enterprises and communities, and to realize the common development of enterprises and communities.

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

Number of Indicator	Unit	2021	2020	2019
Number of public benefit activities organized or attended	time	86	87	128
Number of employees organizing or attending public benefit activities	person-time	857	1,490	863
Hours of organizing or attending public benefit activities	hour	313	354	808
Amount invested in public welfare activities	RMB ten thousand	5.65	–	–

### Community Engagement

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

#### Case: Actively carried out “One Hour in Weekend” volunteer service activities

The Group actively carried out “One Hour in weekend “ volunteer service activities, organizing volunteers and service teams to:

- Carry out cleaning, repair and replacement of water supply facilities such as pipe networks, water meter boxes and valves within the three districts to ensure cleanliness and orderliness.
- Strengthen the management of construction sites to ensure that construction sites are standardized fencing, safe and civilized constructing.
- Organize the number of people up to 60 sinking into the grids of the covered communities, and actively carry out volunteer services such as duty point watch and civilized persuasion.
- Promote general knowledge of water use and household maintenance for users.

### Case: Carried out youth volunteer activities on June 5th Environmental Protection Day

The Xinglu Wastewater actively participated in the June 5th World Environment Day publicity activities held by Luzhou municipal authorities, adopting on-site consultation, distribution of publicity materials and other forms, vigorously promote the “take action for beautiful China”, “rain and sewage diversion in the whole area for beautiful Luzhou “. At the same time, through opening of sewage treatment facilities and promoting the mission and concept of “managing water pollution and benefiting the water environment”, adopting the way of education through fun activities, we constantly improve the personal literacy of the public to protect the environment and increase the public’s awareness of environmental protection.



### Case: Opened environmental facilities to the public

According to the Environmental Protection Office [2019] No. 19 on the announcement of the second batch of national environmental protection facilities and urban sewage and solid waste treatment facilities open to the public, Chengnan Branch of the Xinglu Wastewater as the only environmental protection facilities open to the public in Luzhou City, accepted visits from outsiders for more than 10 times in 2021.



### Rural Revitalization

As a livelihood enterprise, the Group actively practices the corporate mission of “fulfilling responsibility, creating value, and making people happy”, performs social responsibility, and closely focuses on the work of rural revitalization, and formulates a scientific and reasonable work plan. The Group has assigned the first secretary in the village to guide the construction of grass-root Party building and lead the work of rural revitalization. By contacting the Agricultural and Rural Bureau and the Young Entrepreneurs Association, the Group helped the contacted villages to formulate plans for oil tea planting and egg chicken breeding projects according to local conditions, and guides cooperatives and farmers to carry out scientific planting and breeding to help rural revitalization.



### APPENDIX

#### Industry Associations

Association	Participants (Positions)
China Urban Water Association	Luzhou Xinglu Water (Group) Co., Ltd. (Membership)
City Water and Wastewater Association of Sichuan Province	Luzhou Xinglu Water (Group) Co., Ltd. (Standing member)
Luzhou Youth Entrepreneurs Association	Luzhou Xinglu Water (Group) Co., Ltd. (President Unit)

#### Awards and Honor

In 2021, the Group received the following major awards:

Award Winning Unit	Awards
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded the title of “Advanced Group of Luzhou State-owned Assets System Combating COVID-19” by Communist Party of China Luzhou State Assets Administration Committee Capital Administration
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded the title of “Advanced basic-level Party organization of State-owned Assets System” by Communist Party of China Luzhou State-owned Assets Administration Committee Capital Administration
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded the title of “Sichuan Honest Enterprise” by the Event Organizing Committee of the Integrity Selection Conference
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded the title of “2020 Advanced Unit of Municipal Internal Security Work” by Luzhou People’s Government
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded the honorary title of “Excellent Organization Unit” of “2021 Challenge Cup” Qingan Zhi Ba Ranking Competition by Luzhou Municipal Committee of the Communist Youth League and Luzhou Emergency Management Bureau
Luzhou Xinglu Water (Group) Co., Ltd.	Awarded “Advanced Member Enterprise governing by Law” by Luzhou Federation of Industry and Commerce

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

Award Winning Unit	Awards
Xinglu Wastewater Treatment	Awarded “Sichuan Youth Safety Production Demonstration Post” by Sichuan Emergency Management Department of Sichuan Provincial Party Committee of the Communist Youth League
Xinglu Wastewater Treatment	The general party branch of the Xinglu Wastewater was awarded the title of “Advanced Basic-level Party Organization” by the Municipal State-owned Assets Administration Committee Capital Administration
Xinglu Wastewater Treatment	The party construction micro video “Banner Leading · Originality Flowing Charm” won the first prize of the city’s State-owned Assets System “Celebrate the centennial birthday exhibition state assets style” 100 micro video creation competition

# CHAPTER XI INDEPENDENT AUDITOR'S REPORT



信永中和會計師事務所

ShineWing

certified public accountants

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## Audit Report

XYZH/2022CDAA70196

To the shareholders of Luzhou Xinglu Water (Group) Co., Ltd.

## I. AUDIT OPINION

We have audited the financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the “Company” or “Xinglu Water”), which comprise the consolidated and the Parent Company’s balance sheets as at 31 December 2021, and the consolidated and the Parent Company’s income statements, the consolidated and the Parent Company’s cash flow statements, the consolidated and the Parent Company’s statements of changes in equity for 2021 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Xinglu Water present fairly, in all material aspects, Xinglu Water’s and the Parent Company’s consolidated financial position as at 31 December 2021 and its and the Parent Company’s consolidated results of operations and cash flows for the year 2021 in accordance with the Accounting Standards for Business Enterprises.

## II. BASIS OF AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of Xinglu Water in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Chinese Certified Public Accountants, 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 audit opinion.



## CHAPTER XI INDEPENDENT AUDITOR'S REPORT (Continued)

### III. KEY AUDIT MATTERS

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

#### 1. Revenue recognition

Key audit matters	Audit response
<p>As stated in Note VI. 40 Operating revenue, operating cost of the financial statements of Xinglu Water, Xinglu Water is mainly engaged in businesses of water supply, wastewater treatment and household meter installation works. In 2021, the operating revenue of water supply, wastewater treatment and household meter installation works amounted to RMB1,324 million, accounting for 96.64% of the total operating revenue for the period. Whether the recognition of operating revenue is appropriate has a material impact on the financial statements of Xinglu Water. Therefore, we identified the recognition of operating revenue of Xinglu Water as a key audit matter.</p>	<p>The following procedures were primarily performed during the process of audit on the financial statements for 2021:</p> <ol style="list-style-type: none"><li>1. Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;</li><li>2. Recalculating the tap water sales revenue according to the approved unit price classification based on the unit prices approved by the pricing department on the basis of the sales volume recognised in the monthly sales report aggregated by the water volume recorded in each meter reading section in each month and different tap water;</li><li>3. Based on the analysis of water production and sales volume, analysing the rationality of the change in production and sales difference in each month, and thereby judging whether there existed any abnormal fluctuation in the amount of tap water sales revenue in the year in combination with the analysis on tap water sales revenue and gross profit;</li><li>4. Checking by sampling the wastewater treatment revenue against the original documents such as relevant concession agreements and statistics of wastewater treatment volume confirmed by the designated governmental departments in order to confirm whether the wastewater treatment revenue was a true and accurate record;</li><li>5. Sending letters, by sampling, to the local finance bureaus, city administration bureaus and comprehensive administrative law-enforcing bureaus for verification;</li><li>6. Checking the household meter installation works contracts, service settlement sheets and works completion acceptance data; Sending letters, by sampling, to the clients of household meter installation works for verification;</li></ol>

## CHAPTER XI INDEPENDENT AUDITOR'S REPORT (Continued)

### 2. Fixed assets recognition

Key audit matters	Audit response
<p>As stated in Note VI. 12 Fixed assets and 13 Construction in progress of the financial statements of Xinglu Water, the fixed assets of Xinglu Water mainly consisted of houses and buildings, water supply and drainage pipe network, special equipment, general equipment. As at 31 December 2021, the aggregate carrying amount of fixed assets and construction in progress amounted to RMB3,643 million, accounting for 51.50% of the total assets and represented the largest proportion of the assets. Among them, the water supply and drainage pipe network assets that were not directly observable accounted for 31.94% of the fixed assets. Therefore, we identified the existence of fixed assets as a key audit matter.</p>	<p>The following procedures were primarily performed during the process of audit on the financial statements for 2021:</p> <ol style="list-style-type: none"><li>1. Obtaining an understanding of and assessing and testing the management's key internal controls in relation to fixed assets recognition;</li><li>2. Conducting on-site inspections on the houses and buildings and obtaining and checking the entitlement or control certification documents;</li><li>3. Based on the distribution map of water supply and drainage pipe network, conducting on-site inspection on important fixed assets by sampling, checking the observable landmarks on the ground along the lines, spot checking the meter reading and water sales records of tap water users along the lines to verify whether they exist and use normally, and paying attention to whether there exist any idle or damaged fixed assets;</li><li>4. Checking the administrative approval documents of major asset construction projects;</li><li>5. Checking whether the internal approval procedures related to the addition and disposal of fixed assets were complete and whether the accounting treatment was correct;</li><li>6. Checking whether the depreciation provision for fixed assets was accurate and whether the relevant accounting treatment was correct.</li></ol>

## CHAPTER XI INDEPENDENT AUDITOR'S REPORT (Continued)

### IV. OTHER INFORMATION

The management of Xinglu Water (the management) is responsible for the other information. The other information comprises the information included in the 2021 annual report of Xinglu Water, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

### V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing the financial statements in accordance with Accounting Standards for Business Enterprises, to guarantee the fair of financial statements, and designing, implementing and maintaining the necessary internal control to avoid the material misstatement of financial statements which is due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Xinglu Water's sustainable business capacity, disclosing matters (if applicable) in relation to the going concern, and using the going concern assumption unless the management either intend to liquidate Xinglu Water or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Xinglu Water's financial reporting process.

### VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with China Standards on Auditing 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 the financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the 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.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but the purpose of this report is not to express an opinion on the effectiveness of the internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's 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 Xinglu Water'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 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 Xinglu Water to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Xinglu Water 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.

## CHAPTER XI INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

**ShineWing Certified Public Accountants**

**Chinese Certified Public Accountants: Lin Jiankun  
(engagement partner)**

**Chinese Certified Public Accountants: Onyang Lihua**

Beijing, PRC

30 March 2022

# CONSOLIDATED BALANCE SHEETS

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Current assets:</b>			
Cash at bank and on hand	VI.1	871,744,578.87	1,036,193,105.00
Balances with clearing companies			
Lending capital			
Transactional financial assets			
Derivative financial assets			
Notes receivable	VI.2	2,698,572.00	1,950,000.00
Accounts receivable	VI.3	486,058,598.89	345,244,062.76
Factoring of accounts receivables			
Prepayments	VI.4	19,787,128.90	16,479,680.27
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Other receivables	VI.5	148,145,229.62	52,104,650.27
Including: Interests receivable			
Dividends receivable			
Financial assets purchased under agreements to resell			
Inventories	VI.6	53,725,639.81	89,338,789.14
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	VI.7	74,421,802.69	59,077,560.71
<b>Total current assets</b>		<b>1,656,581,550.78</b>	<b>1,600,387,848.15</b>

## CONSOLIDATED BALANCE SHEETS (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Non-current assets:</b>			
Disbursement of loans and advances			
Investments in debt			
Other investments in debt			
Long-term receivables	VI.8	5,593,899.76	195,653,127.47
Long-term equity investments	VI.9	55,275,609.48	54,602,212.65
Other equity investment	VI.10	21,252.07	1,853,727.94
Other non-current financial assets			
Investment properties	VI.11	3,142,838.26	3,280,997.36
Fixed assets	VI.12	3,324,840,435.95	2,718,555,014.53
Construction in progress	VI.13	318,004,395.11	924,067,490.79
Productive biological assets			
Oil and gas assets			
Right-of-use assets	VI.14	1,720,813.33	1,108,186.14
Intangible assets	VI.15	1,387,875,989.14	978,077,794.79
Development costs			
Goodwill	VI.16	28,139,173.07	28,139,173.07
Long-term prepaid expenses	VI.17	238,122,564.63	99,371,296.24
Deferred tax assets	VI.18	6,813,656.38	4,632,914.85
Other non-current assets	VI.19	47,184,085.12	58,805,921.25
<b>Total non-current assets</b>		<b>5,416,734,712.30</b>	<b>5,068,147,857.08</b>
<b>Total assets</b>		<b>7,073,316,263.08</b>	<b>6,668,535,705.23</b>

## CONSOLIDATED BALANCE SHEETS (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Current liabilities:</b>			
Short-term borrowings	VI.20	239,282,822.21	252,856,821.52
Transactional financial liabilities			
Derivative financial liabilities			
Notes payable			
Accounts payable	VI.21	539,836,787.88	651,876,780.22
Advances from customers			
Contract liability	VI.22	194,028,853.54	257,951,120.91
Employee remunerations payable	VI.23	47,331,380.98	40,210,399.36
Taxes payable	VI.24	26,855,172.25	26,540,732.14
Other payables	VI.25	179,435,483.30	170,369,763.59
Including: Interests payable			
Dividends payable			
Handling fees and commission payable			
Reinsured accounts payable			
Liabilities held for sale			
Non-current liabilities due within one year	VI.26	927,384,820.86	250,138,093.09
Other current liabilities	VI.27	1,968,400.84	1,486,585.49
<b>Total current liabilities</b>		<b>2,156,123,721.86</b>	<b>1,651,430,296.32</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	VI.28	1,390,656,364.74	1,037,593,408.67
Bonds payable	VI.29	–	697,546,802.13
Including: Preference shares			
Perpetual debts			
Lease liabilities	VI.30	1,297,709.43	260,944.37
Long-term payables	VI.31	585,292,014.56	626,045,567.75
Long-term employee remunerations payable			
Provisions	VI.32	4,451,887.98	2,327,410.47
Deferred income	VI.33	268,555,468.11	188,646,318.47
Deferred tax liabilities	VI.18	5,917,946.25	6,363,764.96
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>2,256,171,391.07</b>	<b>2,558,784,216.82</b>
<b>Total liabilities</b>		<b>4,412,295,112.93</b>	<b>4,210,214,513.14</b>



## CONSOLIDATED BALANCE SHEETS (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Shareholders' equity:</b>			
Share capital	VI.34	859,710,000.00	859,710,000.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve	VI.35	420,447,214.35	419,505,015.27
Less: Treasury shares			
Other comprehensive income	VI.36	(66,935.74)	640,668.75
Special reserves	VI.37	17,010,566.37	16,675,700.11
Surplus reserves	VI.38	63,429,728.39	52,385,433.51
General risk provisions			
Undistributed profit	VI.39	<u>1,115,598,107.93</u>	<u>959,029,566.17</u>
<b>Total equity attributable to shareholders of the parent company</b>		<b><u>2,476,128,681.30</u></b>	<b><u>2,307,946,383.81</u></b>
Minority interests		<u>184,892,468.85</u>	<u>150,374,808.28</u>
<b>Total shareholders' equity</b>		<b><u>2,661,021,150.15</u></b>	<b><u>2,458,321,192.09</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>7,073,316,263.08</u></b>	<b><u>6,668,535,705.23</u></b>

**Legal representative:**  
Zhang Qi

**Chief financial officer:**  
Ouyang Peng

**Accounting supervisor:**  
Ouyang Peng

# BALANCE SHEETS OF PARENT COMPANY

31 December 2021

Item	<i>Note</i>	<b>31 December 2021</b> RMB	31 December 2020 RMB
<b>Current assets:</b>			
Cash at bank and on hand		<b>427,672,251.65</b>	529,039,429.38
Transactional financial assets			
Derivative financial assets			
Notes receivable		–	–
Accounts receivable	<i>XVII.1</i>	<b>135,975,019.76</b>	117,792,982.19
Factoring of accounts receivables			
Prepayment		<b>7,744,009.71</b>	4,115,575.35
Other receivables	<i>XVII.2</i>	<b>167,467,116.83</b>	104,183,420.37
Including: Interests receivable			
Dividends receivable			
Inventories		<b>24,812,557.92</b>	58,880,611.54
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		<b>20,241,165.37</b>	20,589,147.96
<b>Total current assets</b>		<b><u>783,912,121.24</u></b>	<u>834,601,166.79</u>

## BALANCE SHEETS OF PARENT COMPANY (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Non-current assets:</b>			
Investments in debt			
Other investments in debt			
Long-term receivables		4,555,325.32	4,300,817.48
Long-term equity instrument investments	XVII.3	1,014,530,647.15	1,060,565,352.68
Other equity investment		21,252.07	1,853,727.94
Other non-current financial assets			
Investment properties		983,831.35	1,053,281.89
Fixed assets		1,907,450,677.68	1,583,773,823.31
Construction in progress		94,935,240.92	302,048,427.17
Productive biological assets			
Oil and gas assets			
Right-of-use assets		1,353,543.24	564,704.32
Intangible assets		575,235,600.16	595,518,853.79
Development costs			
Goodwill			
Long-term prepaid expenses		218,504,559.58	76,863,165.77
Deferred tax assets		2,701,600.11	1,378,444.06
Other non-current assets		-	4,000,000.00
		<b>3,820,272,277.58</b>	3,631,920,598.41
<b>Total non-current assets</b>		<b>3,820,272,277.58</b>	3,631,920,598.41
<b>Total assets</b>		<b>4,604,184,398.82</b>	4,466,521,765.20

## BALANCE SHEETS OF PARENT COMPANY (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Current liabilities:</b>			
Short-term borrowings		189,224,002.77	192,795,504.16
Transactional financial liabilities			
Derivative financial liabilities			
Notes payable		-	-
Accounts payable		366,157,103.39	394,498,783.00
Advances from customers			
Contract liability		169,022,173.55	224,914,638.48
Employee remunerations payable		24,326,200.37	19,027,080.12
Taxes payable		8,231,035.25	10,540,255.91
Other payables		84,107,070.94	185,182,578.81
Including: Interests payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year		839,310,975.66	155,154,326.26
Other current liabilities		1,937,051.07	1,094,038.94
<b>Total Current Liabilities</b>		<b>1,682,315,613.00</b>	<b>1,183,207,205.68</b>
<b>Non-Current Liabilities:</b>			
Long-term borrowings		699,851,863.58	581,595,762.00
Bonds payable		-	697,546,802.13
Including: Preference shares			
Perpetual debts			
Lease liabilities		1,257,792.43	-
Long-term payables		214,118,931.36	225,026,715.90
Long-term employee remunerations payable		-	-
Provisions		1,254,506.94	826,786.42
Deferred income		150,475,778.68	62,149,596.78
Deferred tax liabilities		-	113,059.19
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>1,066,958,872.99</b>	<b>1,567,258,722.42</b>
<b>Total liabilities</b>		<b>2,749,274,485.99</b>	<b>2,750,465,928.10</b>

## BALANCE SHEETS OF PARENT COMPANY (Continued)

31 December 2021

Item	Note	31 December 2021 RMB	31 December 2020 RMB
<b>Shareholders' equity:</b>			
Share capital		859,710,000.00	859,710,000.00
Other equity instruments		-	-
Including: Preference shares			
Perpetual debts			
Capital reserve		413,655,709.96	413,655,709.96
Less: Treasury shares			
Other comprehensive income		(66,935.74)	640,668.75
Special reserves		5,725,258.60	7,271,971.76
Surplus reserves		63,429,728.39	52,385,433.51
Undistributed profit		512,456,151.62	382,392,053.12
<b>Total shareholders' equity</b>		<b>1,854,909,912.83</b>	<b>1,716,055,837.10</b>
<b>Total liabilities and shareholders' equity</b>		<b>4,604,184,398.82</b>	<b>4,466,521,765.20</b>

**Legal representative:**  
Zhang Qi

**Chief financial officer:**  
Ouyang Peng

**Accounting supervisor:**  
Ouyang Peng

# CONSOLIDATED INCOME STATEMENT

2021

Item	Note	2021 RMB	2020 RMB
<b>I. Total operating revenue</b>		<b>1,370,097,933.82</b>	1,205,478,914.37
Including: Operating revenue	VI.40	<b>1,370,097,933.82</b>	1,205,478,914.37
<b>II. Total operating costs</b>		<b>1,078,178,702.28</b>	915,460,537.86
Including: Operating costs	VI.40	<b>801,504,172.43</b>	676,728,274.24
Taxes and surcharges	VI.41	<b>29,996,947.81</b>	31,788,369.54
Sales expenses	VI.42	<b>25,077,759.99</b>	17,454,508.47
Management expenses	VI.43	<b>101,615,278.42</b>	82,900,784.73
Research and development expenses			
Financial expenses	VI.44	<b>119,984,543.63</b>	106,588,600.88
Including: Interest expense		<b>127,480,091.01</b>	111,622,901.37
Interest income		<b>9,786,316.49</b>	7,631,847.79
Add: Other income	VI.45	<b>34,508,874.78</b>	22,251,552.19
Investment gain (loss expressed with “-”)	VI.46	<b>673,396.83</b>	719,536.09
Including: Share of profit of associates and joint ventures		<b>673,396.83</b>	719,536.09
Income from derecognition of financial assets at amortised cost			
Foreign exchange gains (loss expressed with “-“)			
Net open hedge income (loss expressed with “-“)			
Gain from changes in fair values (loss expressed with “-“)			
Impairment losses on credit (loss expressed with “-“)	VI.47	<b>(12,215,470.04)</b>	(4,814,231.38)
Impairment losses on assets (loss expressed with “-“)	VI.48	<b>(16,669,742.55)</b>	(4,288,391.80)
Gains on disposal of asset (loss expressed with “-“)	VI.49	—	9,743.84
<b>III. Operating profits (loss denoted by “-“)</b>		<b>298,216,290.56</b>	303,896,585.45
Add: Non-operating incomes	VI.50	<b>9,427,118.71</b>	4,598,807.72
Less: Non-operating expenses	VI.51	<b>321,357.94</b>	4,036,600.65
<b>IV. Total profit (total loss denoted by “-“)</b>		<b>307,322,051.33</b>	304,458,792.52
Less: Income tax expenses	VI.52	<b>46,347,220.45</b>	43,032,126.30

## CONSOLIDATED INCOME STATEMENT (Continued)

2021

Item	Note	2021 RMB	2020 RMB
<b>V. Net profits (net loss denoted by “-”)</b>		<b>260,974,830.88</b>	261,426,666.22
(1) Classified on a going concern basis		<b>260,974,830.88</b>	261,426,666.22
1. Net profit from continuing operations (net loss denoted by “-”)		<b>260,974,830.88</b>	261,426,666.22
2. Net profit from discontinued operations (net loss denoted by “-”)			
(2) Classified by ownership of equity		<b>260,974,830.88</b>	261,426,666.22
1. Net profit attributable to shareholders of the parent (net loss denoted by “-”)		<b>241,926,358.08</b>	247,221,418.74
2. Profit and loss of minority interests (net loss denoted by “-”)		<b>19,048,472.80</b>	14,205,247.48
<b>VI. Other comprehensive income after tax, net</b>		<b>(599,227.53)</b>	(2,140,583.32)
Other comprehensive income after tax attributable to owners of the parent, net		<b>(599,227.53)</b>	(2,140,583.32)
(1) Items not to be reclassified into profit or loss		<b>(599,227.53)</b>	(2,140,583.32)
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment		<b>(599,227.53)</b>	(2,140,583.32)
4. Changes in the fair value of the company’s own credit risk			
5. Others			
(2) Items to be reclassified into profit or loss		-	-
1. Other comprehensive income that is convertible into gains and losses under the equity method			
2. Changes in fair value of other investments in debt			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investment			
5. Cash flow hedge reserve (Effective portion of profit or loss on cash flow hedge)			
6. Differences on translation of foreign currency financial statements			
7. Others			
Other comprehensive income after tax attributable to minority interests, net			

## CONSOLIDATED INCOME STATEMENT (Continued)

2021

Item	<i>Note</i>	2021 RMB	2020 RMB
<b>VII. Total comprehensive income</b>		<b>260,375,603.35</b>	259,286,082.90
Total comprehensive income attributable to shareholders of the parent		<b>241,327,130.55</b>	245,080,835.42
Total comprehensive income attributable to minority interests		<b>19,048,472.80</b>	14,205,247.48
<b>VIII. Earnings per share:</b>			
(1) Basic earnings per share (RMB/share)		<b>0.28</b>	0.29
(2) Diluted earnings per share (RMB/share)		<b>0.28</b>	0.29

**Legal representative:**  
**Zhang Qi**

**Chief financial officer:**  
**Ouyang Peng**

**Accounting supervisor:**  
**Ouyang Peng**



# INCOME STATEMENT OF PARENT COMPANY

2021

Item	Note	2021 RMB	2020 RMB
<b>I. Total operating revenue</b>	<i>XVII.4</i>	<b>703,422,946.47</b>	656,603,018.06
Less: Operating costs	<i>XVII.4</i>	<b>423,447,700.96</b>	372,719,179.46
Taxes and surcharges		<b>14,475,644.93</b>	11,716,871.84
Sales expenses		<b>15,647,762.04</b>	10,413,651.90
Management expenses		<b>52,270,193.88</b>	44,043,057.60
Research and development expenses		—	—
Financial expenses		<b>82,055,633.07</b>	75,441,889.80
Including: Interest expense			
Interest income			
Add: Other income		<b>16,755,632.10</b>	3,304,712.02
Investment gain (loss expressed with “-”)	<i>XVII.5</i>	<b>673,396.83</b>	719,536.09
Including: Share of profit of associates and joint ventures		<b>673,396.83</b>	719,536.09
Income from derecognition of financial assets at amortised cost			
Net open hedge income (loss expressed with “-”)			
Gain from changes in fair values (loss expressed with “-”)			
Impairment losses on credit (loss expressed with “-”)		<b>(8,195,108.23)</b>	(1,381,510.37)
Impairment losses on assets (loss expressed with “-”)		—	—
Gains on disposal of asset (loss expressed with “-”)		—	—
<b>II. Operating profits (loss denoted by “-”)</b>		<b>124,759,932.29</b>	144,911,105.20
Add: Non-operating incomes		<b>4,290,880.26</b>	3,632,670.39
Less: Non-operating expenses		<b>90,902.32</b>	1,008,354.23
<b>III. Total profit (total loss denoted by “-”)</b>		<b>128,959,910.23</b>	147,535,421.36
Less: Income tax expenses		<b>18,625,338.40</b>	17,666,520.48
<b>IV. Net profits (net loss denoted by “-”)</b>		<b>110,334,571.83</b>	129,868,900.88
(1) Net profit from continuing operations (net loss denoted by “-”)		<b>110,334,571.83</b>	129,868,900.88
(2) Net profit from discontinued operations (net loss denoted by “-”)			

## INCOME STATEMENT OF PARENT COMPANY (Continued)

2021

Item	Note	2021 RMB	2020 RMB
<b>V. Other comprehensive income after tax, net</b>		<b>(599,227.53)</b>	(2,140,583.32)
(1) Items not to be reclassified into profit or loss		<b>(599,227.53)</b>	(2,140,583.32)
1. Changes arising from remeasurement of defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment		<b>(599,227.53)</b>	(2,140,583.32)
4. Changes in the fair value of the company's own credit risk			
5. Others			
(2) Items to be reclassified into profit or loss		-	-
1. Other comprehensive income that is convertible into gains and losses under the equity method			
2. Changes in fair value of other investments in debt			
3. The amount of financial assets reclassified into other comprehensive income			
4. Credit impairment provisions for other debt investment			
5. Cash flow hedge reserve (Effective portion of profit or loss on cash flow hedge)			
6. Differences on translation of foreign currency financial statements			
7. Others			
<b>VI. Total comprehensive income</b>		<b><u>109,735,344.30</u></b>	<u>127,728,317.56</u>

**Legal representative:**  
Zhang Qi

**Chief financial officer:**  
Ouyang Peng

**Accounting supervisor:**  
Ouyang Peng

# Consolidated Cash Flow Statement

2021

Item	Note	2021 RMB	2020 RMB
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		1,280,154,764.52	1,217,598,275.95
Tax rebates received		6,836,234.80	5,583,998.22
Other cash received concerning operating activities	VI.53(1)	<u>87,362,202.09</u>	<u>50,791,118.94</u>
<b>Subtotal of cash inflows from operating activities</b>		<b><u>1,374,353,201.41</u></b>	<b><u>1,273,973,393.11</u></b>
Cash paid for purchases of commodities and receipt of services		462,917,246.98	563,440,231.35
Cash paid to and for employees		169,201,579.97	141,303,511.74
Cash paid for taxes and surcharges		124,701,661.76	123,895,193.46
Cash paid for other operating activities	VI.53(1)	<u>80,336,400.17</u>	<u>75,891,886.27</u>
<b>Subtotal of cash outflows from operating activities</b>		<b><u>837,156,888.88</u></b>	<b><u>904,530,822.82</u></b>
Net cash flows from operating activities		<b><u>537,196,312.53</u></b>	<b><u>369,442,570.29</u></b>
<b>II. Cash flows from investing activities:</b>			
Cash received from recovery of investments		1,108,376.96	-
Cash received from investment income		-	-
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		2,484,753.66	500,488.49
Net cash received from disposal of subsidiaries and other operation units		-	-
Cash received relating to other investing activities	VI.53(1)	<u>-</u>	<u>-</u>
<b>Subtotal of cash inflows from investing activities</b>		<b><u>3,593,130.62</u></b>	<b><u>500,488.49</u></b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		754,357,669.07	997,075,414.48
Cash paid for investments		-	-
Net increase in pledged loans		-	-
Cash paid for acquiring subsidiaries and other operation units		-	-
Cash paid relating to other investing activities	VI.53(1)	<u>-</u>	<u>-</u>
<b>Subtotal of cash outflows from investing activities</b>		<b><u>754,357,669.07</u></b>	<b><u>997,075,414.48</u></b>
<b>Net cash flows from investing activities</b>		<b><u>(750,764,538.45)</u></b>	<b><u>(996,574,925.99)</u></b>

## Consolidated Cash Flow Statement (Continued)

2021

Item	Note	2021 RMB	2020 RMB
<b>III. Cash flows from financing activities:</b>			
Cash received from capital contribution		16,000,000.00	14,801,876.30
Including: Cash contribution to subsidiaries from minority shareholders' investment		16,000,000.00	14,801,876.30
Cash received from borrowings		754,228,458.83	850,514,771.67
Cash received relating to other financing activities	VI.53(1)	—	405,000,000.00
<b>Subtotal of cash inflows from financing activities</b>		<b>770,228,458.83</b>	<b>1,270,316,647.97</b>
Cash paid for repayment of borrowings		474,486,040.00	530,967,073.00
Cash paid for distribution of dividends, profit or payment of interest expenses		199,585,100.34	160,664,270.03
Including: Dividend and profit paid to minority shareholders by subsidiaries		616,698.62	—
Cash paid relating to other financing activities	VI.53(1)	47,039,618.70	11,273,916.67
<b>Subtotal of cash outflows from financing activities</b>		<b>721,110,759.04</b>	<b>702,905,259.70</b>
<b>Net cash flows from financing activities</b>		<b>49,117,699.79</b>	<b>567,411,388.27</b>
<b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>		—	—
<b>V. Net increase in cash and cash equivalents</b>		<b>(164,450,526.13)</b>	<b>(59,720,967.43)</b>
Add: Balance of cash and cash equivalents at the beginning of the period	VI.53(3)	1,036,192,605.00	1,095,913,572.43
<b>VI. Balance of cash and cash equivalents at the end of the period</b>	VI.53(4)	<b>871,742,078.87</b>	<b>1,036,192,605.00</b>

Legal representative:  
Zhang Qi

Chief financial officer:  
Ouyang Peng

Accounting supervisor:  
Ouyang Peng

# Cash Flow Statement of Parent Company

2021

Item	Note	2021 RMB	2020 RMB
<b>I. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		712,113,031.88	681,804,347.47
Tax rebates received		-	-
Cash received concerning other operating activities		88,702,811.96	27,252,786.66
<b>Subtotal of cash inflows from operating activities</b>		<b>800,815,843.84</b>	709,057,134.13
Cash paid for purchases of commodities and receipt of labor services		297,565,559.60	399,509,173.02
Cash paid to and for employees		70,328,941.30	56,730,483.65
Cash paid for taxes and surcharges		64,703,505.28	60,147,880.88
Cash paid for other operating activities		45,476,746.65	44,000,298.91
<b>Subtotal of cash outflow from operating activities</b>		<b>478,074,752.83</b>	560,387,836.46
<b>Net cash flows from operating activities</b>		<b>322,741,091.01</b>	148,669,297.67
<b>II. Cash flow from investing activities:</b>			
Cash received from recovery of investments		1,108,376.96	-
Cash received from investment income		-	-
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		885,370.51	11,382.00
Net cash received from disposals of subsidiaries and other operation units		-	-
Cash received relating to other investing activities		41,024,583.40	2,572,104.31
<b>Subtotal of cash inflows from investing activities</b>		<b>43,018,330.87</b>	2,583,486.31
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		359,910,897.15	498,677,344.16
Cash paid for investments		-	70,789,064.00
Net cash paid for acquisition of subsidiaries and other operation units		-	-
Cash paid relating to other investing activities		20,550,000.00	10,000,000.00
<b>Subtotal of cash outflows from investing activities</b>		<b>380,460,897.15</b>	579,466,408.16
<b>Net cash flows from investing activities</b>		<b>(337,442,566.28)</b>	(576,882,921.85)

## Cash Flow Statement of Parent Company (Continued)

2021

Item	Note	2021 RMB	2020 RMB
<b>III. Cash flows from financing activities:</b>			
Cash received from capital contribution		-	-
Cash received from borrowings		<b>383,350,000.00</b>	487,820,000.00
Cash received relating to other financing activities		-	200,000,000.00
<b>Subtotal of cash inflows from financing activities</b>		<b><u>383,350,000.00</u></b>	<u>687,820,000.00</u>
Cash paid for repayment of borrowings		<b>323,668,040.00</b>	311,274,198.00
Cash paid for distribution of dividends, profit or payment of interest expenses		<b>144,331,628.46</b>	124,134,483.43
Cash paid relating to other financing activities		<b>2,016,034.00</b>	-
Subtotal of cash outflows from financing activities		<b>470,015,702.46</b>	435,408,681.43
Net cash flows from financing activities		<b><u>(86,665,702.46)</u></b>	<u>252,411,318.57</u>
<b>IV. Effects of foreign exchange rate changes on cash and cash equivalents</b>		-	-
<b>V. Net increase in cash and cash equivalents</b>		<b>(101,367,177.73)</b>	(175,802,305.61)
Add: Balance of cash and cash equivalents at the beginning of the period		<b><u>529,039,429.38</u></b>	<u>704,841,734.99</u>
<b>VI. Balance of cash and cash equivalents at the end of the period</b>		<b><u>427,672,251.65</u></b>	<u>529,039,429.38</u>

Legal representative:  
Zhang Qi

Chief financial officer:  
Ouyang Peng

Accounting supervisor:  
Ouyang Peng

# Consolidated Statement of Changes in Owners' Equity

2021

Item	2021														
	Attributable to the owners of the parent					Attributable to the owners of the parent									
	Other equity instruments					Attributable to the owners of the parent									
	Share capital	Preference shares	Perpetual shares	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Others	Subtotal	Minority interests	Total owners' equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
I. Closing balance of previous year	859,710,000.00	-	-	-	419,505,015.27	-	640,668.75	16,675,700.11	52,285,433.51	-	939,029,566.17	2,307,946,363.61	150,374,808.28	2,458,321,920.9	
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	(22,839,293.40)	-	(22,839,293.40)	-	
Correction for error in previous period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business combination involving entities under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
II. Opening balance for the year	859,710,000.00	-	-	-	419,505,015.27	-	640,668.75	16,675,700.11	52,285,433.51	-	936,190,267.77	-	150,374,808.28	2,435,481,893.69	
III. Movements in the current year (Decreases denoted in "-")															
(1) Total comprehensive income	-	-	-	-	942,199.08	-	(707,604.49)	334,866.26	11,044,294.88	-	179,407,840.16	-	191,021,595.89	34,517,660.57	225,539,256.46
(2) Owners' contributions and capital reductions	-	-	-	-	-	-	(98,227.53)	-	-	-	241,526,368.08	-	241,327,130.55	19,046,472.80	260,373,603.35
1. Ordinary shares contributed by shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000,000.00	16,000,000.00
2. Capital contributions by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	16,000,000.00	16,000,000.00
3. Amount of share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit Distribution	-	-	-	-	-	-	-	-	11,033,457.18	-	(62,616,057.18)	-	(51,582,600.00)	(616,698.62)	(52,199,298.62)
1. Appropriations to surplus reserve	-	-	-	-	-	-	-	-	11,033,457.18	-	(11,033,457.18)	-	-	-	-
2. Appropriations to general risk provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer of owners' equity	-	-	-	-	-	-	(108,376.96)	-	10,837.70	-	97,539.26	-	(51,582,600.00)	(616,698.62)	(52,199,298.62)
1. Transfer to share capital from capital reserve	-	-	-	-	-	-	(108,376.96)	-	10,837.70	-	97,539.26	-	-	-	-
2. Transfer to share capital from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves for making up losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changing amount of defined benefit plan carried forward to related earnings	-	-	-	-	-	-	(108,376.96)	-	10,837.70	-	97,539.26	-	-	-	-
5. Other comprehensive income carried forward to related earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	334,866.26	-	-	-	-	334,866.26	424,116.81	758,983.07
1. Provided during the year	-	-	-	-	-	-	-	334,866.26	-	-	-	-	334,866.26	424,116.81	758,983.07
2. Used during the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) Other	-	-	-	-	942,199.08	-	-	7,785,817.96	-	-	-	-	942,199.08	338,230.42	603,968.66
IV. Closing balance for the year	859,710,000.00	-	-	-	420,447,214.35	-	-68,935.74	17,010,566.37	63,323,728.39	-	1,115,598,107.93	-	2,476,128,681.30	184,892,488.85	2,661,021,150.15

# Consolidated Statement of Changes in Owners' Equity (Continued)

2021

Item	Attributable to the owners of the parent company											Total owners' equity RMB			
	Share capital RMB	Preference shares RMB	Perpetual debits RMB	Others RMB	Capital reserve RMB	Treasury shares RMB	Other comprehensive income RMB	Special reserves RMB	Surplus reserves RMB	General risk provisions RMB	Undistributed profits RMB		Others RMB	Subtotal RMB	Minority interests RMB
<b>I. Closing balance for previous year</b>	859,710,000.00	-	-	-	419,505,015.27	-	2,781,252.07	11,085,652.56	39,398,543.42	-	776,377,637.52	-	2,108,669,100.84	110,621,561.19	2,219,479,662.03
Adjust: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction for error in previous period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination involving entities under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Opening balance for the year</b>	859,710,000.00	-	-	-	419,505,015.27	-	2,781,252.07	11,085,652.56	39,398,543.42	-	776,377,637.52	-	2,108,669,100.84	110,621,561.19	2,219,479,662.03
<b>III. Movements in the current year (Decreases denoted in "-")</b>	-	-	-	-	-	-	(2,140,583.32)	5,590,047.55	12,986,990.09	-	182,651,928.65	-	199,088,282.97	39,753,247.09	238,841,530.06
(1) Total comprehensive income	-	-	-	-	-	-	(2,140,583.32)	5,590,047.55	12,986,990.09	-	247,221,416.74	-	245,080,835.42	14,205,247.48	239,286,082.90
(2) Owners' contributions and capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributions by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit Distribution	-	-	-	-	-	-	-	-	-	(64,569,400.09)	-	(51,582,600.00)	-	(51,582,600.00)	
1. Appropriations to surplus reserve	-	-	-	-	-	-	-	-	-	(12,986,990.09)	-	-	-	-	
2. Appropriations to general risk provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Distribution to owners shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Other	-	-	-	-	-	-	-	-	-	(51,582,600.00)	-	(51,582,600.00)	-	(51,582,600.00)	
(4) Transfer of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
1. Transfer to share capital from capital reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2. Transfer to share capital from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
3. Surplus reserves for making up losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Changing amount of defined benefit plan carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(5) Special reserves	-	-	-	-	-	-	-	5,590,047.55	-	-	-	-	5,590,047.55	454,646.02	6,044,693.57
1. Provided during the year	-	-	-	-	-	-	-	10,992,072.47	-	-	-	-	10,992,072.47	766,630.75	11,760,723.22
2. Used during the year	-	-	-	-	-	-	-	(5,402,024.92)	-	-	-	-	(5,402,024.92)	314,004.73	5,716,029.65
(6) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	1,957.17	1,957.17
<b>IV. Closing balance for the year</b>	859,710,000.00	-	-	-	419,505,015.27	-	640,668.75	16,675,700.11	52,385,533.51	-	959,029,566.17	-	2,307,946,383.81	150,374,808.28	2,458,321,192.09

Accounting supervisor:  
Ouyang Peng

Chief financial officer:  
Ouyang Peng

Legal representative:  
Zhang Qi



# Statement of Changes in Owners' Equity of the Parent Company

2021

Item	2021											
	Share capital	Preference shares	Perpetual debits	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Other owners' equity	Total owners' equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>I. Closing balance in previous year</b>	859,710,000.00	-	-	-	413,655,709.96	-	640,668.75	7,271,971.76	52,365,433.51	382,392,053.12	-	1,716,055,837.10
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Correction for error in previous period	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Opening balance for the year</b>	859,710,000.00	-	-	-	413,655,709.96	-	640,668.75	7,271,971.76	52,365,433.51	382,392,053.12	-	1,716,055,837.10
<b>III. Movements in the current year (Decreases denoted in "-")</b>	-	-	-	-	-	-	(707,604.49)	(1,546,713.16)	11,044,294.88	130,064,096.50	-	138,854,075.73
(1) Total comprehensive income	-	-	-	-	-	-	(599,227.53)	-	-	110,334,571.83	-	109,735,344.30
(2) Owners' contributions and capital reductions	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributions by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit Distribution	-	-	-	-	-	-	-	-	11,033,457.18	(62,616,057.18)	-	(51,582,600.00)
1. Appropriations to surplus reserve	-	-	-	-	-	-	-	-	11,033,457.18	(11,033,457.18)	-	-
2. Distribution to shareholders	-	-	-	-	-	-	-	-	-	(51,582,600.00)	-	(51,582,600.00)
3. Other	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer of owners' equity	-	-	-	-	-	-	(108,376.96)	-	10,837.70	97,539.26	-	-
1. Transfer to share capital from capital reserve	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer to share capital from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves for making up losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Changing amount of defined benefit plan carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	(108,376.96)	-	10,837.70	97,539.26	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(5) Special reserves	-	-	-	-	-	-	-	(1,546,713.16)	-	-	-	(1,546,713.16)
1. Provided during the year	-	-	-	-	-	-	-	1,022,644.94	-	-	-	1,022,644.94
2. Used during the year	-	-	-	-	-	-	-	2,569,358.10	-	-	-	2,569,358.10
(6) Other	-	-	-	-	-	-	-	-	-	82,248,044.59	-	82,248,044.59
<b>IV. Closing balance for the year</b>	859,710,000.00	-	-	-	413,655,709.96	-	(66,935.74)	5,725,258.60	63,429,728.39	512,456,151.62	-	1,854,909,912.83

# Statement of Changes in Owners' Equity of the Parent Company (Continued)

2021

Item	2020											
	Share capital	Preference shares	Perpetual debts	Others	Capital reserve	Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Other owners' equity	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>I. Closing balance in previous year</b>	859,710,000.00	-	-	-	413,655,709.96	-	2,781,252.07	4,633,148.57	39,396,543.42	317,092,642.33	-	1,637,271,296.35
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Correction for error in previous period	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Opening balance for the year</b>	859,710,000.00	-	-	-	413,655,709.96	-	2,781,252.07	4,633,148.57	39,396,543.42	317,092,642.33	-	1,637,271,296.35
<b>III. Movements in the current year (Decreases denoted in "-")</b>												
(1) Total comprehensive income	-	-	-	-	-	-	(2,140,583.32)	2,638,823.19	12,986,890.09	65,299,410.79	-	79,764,540.75
(2) Owners' contributions and capital reductions	-	-	-	-	-	-	(2,140,583.32)	-	-	129,868,900.88	-	127,728,317.56
1. Ordinary shares contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributions by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
(3) Profit Distribution	-	-	-	-	-	-	-	-	12,986,890.09	(64,569,490.09)	-	(51,582,600.00)
1. Appropriations to surplus reserve	-	-	-	-	-	-	-	-	12,986,890.09	(12,986,890.09)	-	-
2. Distribution to shareholders	-	-	-	-	-	-	-	-	-	(51,582,600.00)	-	(51,582,600.00)
3. Other	-	-	-	-	-	-	-	-	-	-	-	-
(4) Transfer of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer to share capital from capital reserve	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer to share capital from surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves for making up losses	-	-	-	-	-	-	-	-	-	-	-	-
4. Changing amount of defined benefit plan carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
5. Other comprehensive income carried forward to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	2,638,823.19	-	-	-	2,638,823.19
(5) Special reserves	-	-	-	-	-	-	-	4,917,944.77	-	-	-	4,917,944.77
1. Provided during the year	-	-	-	-	-	-	-	4,917,944.77	-	-	-	4,917,944.77
2. Used during the year	-	-	-	-	-	-	-	2,279,121.58	-	-	-	2,279,121.58
(6) Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Closing balance for the year</b>	859,710,000.00	-	-	-	413,655,709.96	-	640,668.75	7,271,971.76	52,385,433.51	382,392,053.12	-	1,716,055,837.10

Legal representative:  
Zhang Qi

Chief financial officer:  
Ouyang Peng

Accounting supervisor:  
Ouyang Peng

# Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 1. BASIC INFORMATION OF THE COMPANY

### 1. COMPANY PROFILE

Beijiao Water Supply Company and Urban Pipe Network Branch and together with its subsidiaries, the “Group”) is a wholly state-owned company established by the former Beijiao Water Supply Company and Urban Pipe Network Branch with the approval for reform by the document Lu Shi Fu Han [2002] No. 79 issued by the Luzhou Municipal People’s Government. The registered capital of the Company was RMB66.28 million, which was invested by the Luzhou Planning and Construction Bureau as the authorised state-owned asset investor, which was verified by the capital verification report (Chuan Yu Kuai Zheng (2002) no. 080) issued by Sichuan Yulong Certified Public Accountants. It was incorporated with the Administration for Industry and Commerce of Luzhou on 31 July 2002. The unified social credit code of the Company is 91510500204702995Y.

In December 2002, according to the Notice of Luzhou Municipal People’s Government on the establishment of Luzhou City Xinglu Investment Group Co., Ltd. (Lu Shi Fu Fa [2002] No. 133), Luzhou City Xinglu Investment Group Co., Ltd. (hereinafter referred to as “Xinglu Group”) became the shareholder of the Company as the state-owned asset investor authorised by the Luzhou Municipal People’s Government.

The principal changes in the registered capital of the Company since its establishment are as follows:

In 2006, according to the “Approval on the Transfer of gains from the State-owned Assets into National Capital by Municipal Water Affairs (Group) Co., Ltd.” (Lu Shi Fu Han [2006] No. 112) issued by the Luzhou Municipal People’s Government and the “Approval on the Transfer of Gains from the State-owned Assets into National Capital by Luzhou Water (Group) Company Limited” (Lu Guo Zi Wei Chan [2006] No. 37) issued by the State-owned Assets Supervision and Administration Commission of Luzhou Municipal People’s Government, it was approved that the transfer gains from the state-owned assets in total of RMB15,653,652.32 recovered from the enterprise reform in 2002 and the reform of Beijiao Supply Plant in 2004 be transferred as the national capital investment; In addition, according to the Approval on the Equity Adjustment of Wholly State-owned Companies under Luzhou City Xinglu Investment Group Co., Ltd.” (Lu Guo Zi Wei Chan [2006] No. 46) issued by the State-owned Assets Supervision and Administration Commission of Luzhou Municipal Government, it was approved that Luzhou City Infrastructure Construction Co., Ltd. to increase the share capital of the Company by RMB1,569,847.68 in cash. The changed registered capital and the paid-up capital were RMB83,503,500.00 and RMB83,503,500.00 respectively. This capital increase has been verified by the capital verification report (Chuan Chang Xin Yan [2007] No. 091) issued by Sichuan Changxin Accounting Firm Co., Ltd.

# Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 1. BASIC INFORMATION OF THE COMPANY (Continued)

### 1. COMPANY PROFILE (Continued)

In 2007, according to the “Verification and Approval of Assets and Capital Verification of Luzhou Water (Group) Company Limited” (Lu Guo Zi Wei Chan [2007] No. 39), the net gains from assets and capital verification of RMB1,392,826.27 was taken as the registered capital increased by Xinglu Group to the Company, and thereby the registered capital of the Company was changed to RMB84,896,326.27. This capital increase has been verified by the capital verification report (Chuan Chang Xin Yan (2009) No. 123) issued by Sichuan Changxin Accounting Firm Co., Ltd.

On 3 December 2012, according to the resolution of the general meeting and the amended articles of association, the registered capital of the Company was increased by RMB100,000,000.00, of which RMB98,150,000.00 was paid by the shareholder Xinglu Group and RMB1,850,000.00 was paid by the shareholder Luzhou City Infrastructure Investment Co., Ltd. The change was registered with Luzhou Administration for Industry and Commerce on 25 December 2012. The changed registered capital was RMB184,896,326.27, which has been verified by the capital verification report (Chuan Hua Xin Yan (2012) No. 68) issued by Sichuan Huaxin (Group) CPA Firm.

According to the “Approval on Reform and Split of non-core Business Assets of Luzhou Xinglu Water (Group) Company Limited.” (Lu Guo Zi Chan Quan [2014] No. 14) issued by Luzhou State-owned Assets Supervision and Administration Commission and the resolution of the first general meeting of Luzhou Xinglu Water (Group) Company Limited in 2014, it was resolved to carry out continuation and division. Prior to the division, the registered capital of Luzhou Xinglu Water (Group) Company Limited was RMB184,896,326.27; Subsequent to the division, the continued company was Luzhou Xinglu Water (Group) Company Limited, and the registered capital of which was RMB184,396,326.27; The newly established company was “Luzhou City Xinglu Assets Management Co., Ltd. (approved in advance by Luzhou Administration of Industry and Commerce (Chuan Gong Shang Lu Zi) registered name pre verified Zi [2014] No. 001957)”, and the registered capital of which was RMB500,000.00. The debts of the Company prior to the division was assumed by the continued company after the division, and the newly established company born the jointly and severally liability. The second extraordinary general meeting of Luzhou Xinglu Water (Group) Company Limited in 2014 deliberated and passed the resolution in relation to reducing the registered capital of the Company, and agreed to reduce the registered capital of Luzhou Xinglu Water (Group) Company Limited by RMB500,000.00 as the registered capital of the new company established by division. The capital reduction was approved by the “Approval on Reducing the Registered Capital of Luzhou Xinglu Water (Group) Company Limited” (Lu Guo Zi Chan Quan [2014] No. 17) issued by Luzhou State-owned Assets Supervision and Administration Commission on 29 July 2014. The change was registered with Luzhou Administration of Industry and Commerce on 4 September 2014, and the changed registered capital was RMB184,396,326.27.

# Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 1. BASIC INFORMATION OF THE COMPANY (Continued)

### 1. COMPANY PROFILE (Continued)

According to the capital increase agreement of Luzhou Xinglu Water (Group) Company Limited entered into between Luzhou City Xinglu Investment Group Co., Ltd., Luzhou City Infrastructure Investment Co., Ltd., Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Water (Group) Company Limited, Luzhou City Xinglu Investment Group Co., Ltd. increased the capital of the Company by RMB210,000,000.00 on 31 December 2014, of which RMB63,890,171.41 as the increased registered capital of the Company and the remaining RMB146,109,828.59 as the capital reserve of the Company, Luzhou Laojiao Group Co., Ltd. increased the capital of the Company by RMB 100,000,000.00 on 5 January 2015, of which RMB30,423,900.00 as the increased registered capital of the Company and remaining RMB69,576,100.00 as the capital reserve of the Company. Luzhou City Infrastructure Investment Co., Ltd. had waived its subscription right. On 30 December 2014, Luzhou State-owned Assets Supervision and Administration Commission issued the “Approval the Reform Proposal (Revised) of Luzhou Xinglu Water (Group) Company Limited” (Lu Guo Zi Wei Fa [2014] No. 132), agreeing that Xinglu Group to increase the capital of Xinglu Water by RMB210 million and Luzhou Laojiao Group to increase the capital of Xinglu Water by RMB100 million. The capital increase was registered with Luzhou Administration of Industry and Commerce on 31 December 2014, and the changed registered capital was RMB278,710,397.68. The change was registered with Luzhou Administration of Industry and Commerce on 5 January 2015, and the changed registered capital was RMB278,710,397.68.

According to the “Approval on the Shareholding Reform Plan of Luzhou Xinglu Water (Group) Company Limited” (Lu Guo Zi Wei Fa [2015] No. 180) issued by Luzhou State-owned Assets Supervision and Administration Commission, the resolution of the ninth extraordinary general meeting of Luzhou Xinglu Water (Group) Company Limited in 2015, the asset appraisal report issued by Yinxin Appraisal Co., Ltd. (Yin Xin Ping Bao Zi [2015] Hu No. 0974) and the audit report (Chuan Hua Xin Shen [2015] No. 252) issued by Sichuan Huaxin (Group) CPA Firm, as of 31 July 2015, the valued net assets of Luzhou Xinglu Water (Group) Company Limited amounted to RMB923.6707 million, and the audited carrying value of net assets amounted to RMB774.6276 million. On 17 December 2015, the original Luzhou Xinglu Water (Group) Company Limited was reformed into a joint stock limited company as verified by the capital verification report (Chuan Hua Xin Yan [2015] No. 109), and the audited net assets of RMB774,627,645.30 was converted into shares as at the valuation benchmark date of 31 July 2015, of which RMB600 million as the registered capital of the Company and RMB174,627,645.30 as the capital reserve. The total share capital of Luzhou Xinglu Water (Group) Co., Ltd. was 600,000,000 shares, of which 527,160,000 shares were subscribed for by Luzhou City Xinglu Investment Group Co., Ltd.; 65,520,000 shares were subscribed for by Luzhou Laojiao Group Co., Ltd.; and 7,320,000 shares were subscribed for by Luzhou City Infrastructure Investment Co., Ltd.

# Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 1. BASIC INFORMATION OF THE COMPANY (Continued)

### 1. COMPANY PROFILE (Continued)

On 9 May 2016, according to the document (Luzhou State-owned Assets Supervision and Administration Commission “Luguo Assets Quan [2016] No. 28 Document”), Luzhou City Infrastructure Investment Co., Ltd. and Luzhou Laojiao Group Co., Ltd. increased the share capital of the Water Group by RMB133,580,000.00, of which RMB64,310,000.00 as the Company’s registered capital and RMB69,270,000.00 as capital reserve. Upon this capital increase, the total share capital of the Company increased to 664.31 million shares, of which Xinglu Group holds 527.16 million shares, with a shareholding ratio of 79.35%, and Laojiao Group holds 72.54 million shares, with a shareholding ratio of 10.92%, and the basic company holds 64.61 million shares, with a shareholding ratio of 9.73%.

According to the resolution of the fourth extraordinary general meeting of the Company in 2016, it was resolved to publicly issue overseas listed foreign invested shares (H Shares) and the same to be listed on the main board of the Stock Exchange of Hong Kong Limited. On 3 November 2016, the China Securities Regulatory Commission issued the Approval on Issuing Overseas Listed Foreign Invested Shares of Luzhou Xinglu Water (Group) Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2530), approving the Company to issue overseas listed foreign invested shares (H Shares). According to the announcement of the Company on the issue results of overseas listed foreign invested shares (H Shares), the Company initially issued 214,940,000 shares under the public issue of overseas listed foreign invested shares (H Shares) (including 195,400,000 H Shares issued by the Company and 19,540,000 H Shares sold by the selling shareholders due to the reduction of state-owned shares), with a nominal value of RMB1 each and an issue price of HK\$2.30 per share. As of 31 December 2017, the Company has completed the issue of 214,940,000 overseas listed foreign invested shares (H Shares), and has registered the same with Luzhou Administration of Industry and Commerce on 22 May 2017. The changed registered capital was RMB859,710,000.00.

2. The registered address and headquarter address of the Company is 16 Baizi Road, Luzhou City, Sichuan Province.
3. Business nature and principal operating activities: The Group operates in the water industry and is mainly engaged in wastewater treatment operation, tap water supply and household meter installation. Business scope: centralised water supply; grade three of general construction contracting for municipal public utility construction; geological survey technical services; cleaning services; technology promotion services; sale of hardware, electrical materials and chemical products; lease of self-owned properties; assessment and testing of water quality (the operation of this business is limited to branches). (Businesses that require pre-approvals according to the laws can only be conducted after obtaining approvals from the relevant authorities).
4. Name of the controlling shareholder and the ultimate controller of the Group: the controlling shareholder of the Company is Xinglu Group, a wholly state-owned incorporated in the PRC; the ultimate controller is Luzhou State-owned Assets Supervision and Administration Commission.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 2. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Group for the year covered 18 subsidiaries, including Luzhou Xinglu Wastewater Treatment Co., Ltd., Luzhou Xinghe Water Governance Co., Ltd. and Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.. For details please refer to “VII. Changes in consolidated scope” and “VIII. Interests in other entities” under this note.

### 3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

#### (1) Basis of preparation

The financial statements of the Group are prepared based on going-concern and actual transactions and events according to the Accounting Standards for Business Enterprises and relevant regulations (collectively “Accounting Standard for Business Enterprises”), and the disclosure requirements pursuant to China Securities Regulatory Commission’s Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reports (Revised), and the relevant disclosure required by the “Companies Ordinance” of Hong Kong and the “Listing Rules” of The Stock Exchange of Hong Kong, and prepared based on “4. Major Accounting Policies and Accounting Estimates” in this note.

#### (2) Going-concern

The Group is able to continue as a going concern for at least the next 12 months from the end of the Reporting Period, and there is no material matters affecting its operation as a going concern.

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The accounting policies and accounting estimates developed by the Group according to relevant provisions of accounting standards in combination of characteristics of actual production and operation include business cycle Recognition and measurement of bad debt provision for receivables, fixed assets classification and depreciation methods, amortization of intangible assets, recognition and measurement of incomes, etc.

#### 1. Declaration on Compliance with the Accounting Standards for Business

The Group have prepared the financial statements in accordance with the Accounting Standards for Business Enterprises (the “ASBEs”), which gives a true and complete view of the financial position, trading results, cash flows and other information of the Company and of the Group.

#### 2. Accounting period

The Group adopts a calendar year, being the period from 1 January to 31 December, as its accounting period.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3. Business cycle

The Group adopts a 12-month period as its business cycle and the basis for liquidity classification between assets and liabilities.

#### 4. Reporting currency

The Group uses Renminbi as the local currency of accounts.

#### 5. Accounting treatment for business combinations involving entities under common and not under common control

The assets and liabilities obtained by the Group as the merging party in a business combination are measured at the combination-date carrying amount of the merged party in the consolidated statement of ultimate controller. The difference between the carrying amount of net assets obtained and the carrying amount of the combination consideration paid shall adjust capital reserve; if the capital reserve is not sufficient for offsetting, the retained earnings shall be adjusted.

The acquiree's identifiable assets, liabilities and contingent liabilities obtained in a business combination not under common control shall be measured at fair value at the acquisition date. The cost of combination is the sum of the fair value of cash and non-cash assets paid, liabilities incurred or assumed and equity securities issued by the Group for obtaining control of the acquiree at the acquisition date and all expenses incurred directly in the business combination (for the business combination is achieved in stages through multiple transactions, its cost of combination is the sum of costs of each single transaction). Where the cost of combination exceeds the acquirer's share of the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill; where the cost of combination is less than the acquirer's share of the fair value of the acquiree's identifiable net assets, the measurement of the fair values of all the identifiable assets, liabilities and contingent liabilities obtained in the business combination and the fair values of non-cash assets or equity securities issued as the consideration for combination are firstly reviewed. If, after that review, the cost of combination is still less than the acquirer's share of the fair value of the acquiree's identifiable net assets in the business combination, the difference shall be included in the consolidated non-operating revenue for the period.

#### 6. Preparation of consolidated financial statements

The Group includes all of its subsidiaries under its control in the scope of consolidated financial statements.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 6. Preparation of consolidated financial statements (Continued)

When preparing the consolidated financial statements, when the accounting policy and the accounting period that subsidiaries adopted are inconsistent with the Company, necessary adjustments are made to the financial statements of those subsidiaries according to the accounting policies or accounting period of the Company.

When preparing consolidated financial statements, all significant internal transactions, balances and unrealized profits within the scope of combination shall be offset. Proportion of shareholder's equity of the subsidiaries which do not belong to the Company, and proportion of profit or loss for current period, other comprehensive income and total comprehensive income which belong to the equity of minority shareholders, which shall be listed under "equity of minority shareholders, gain or loss attributable to minority interests, other comprehensive income attributable to minor shareholders and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For subsidiaries acquired through business combination under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements since the beginning of the period of combination. When preparing comparative consolidated financial statements, adjustment shall be made to the related items in the financial statements for the last year, regarding as the reporting subject which was formed after combination has existed since the ultimate controller started control.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, the accounting treatment of the consolidated financial statements should be further disclosed in the reporting period during which control was obtained. For example, if the equity of an investee under common control is acquired through multiple transactions and the acquisition eventually forms a business combination when preparing consolidated financial statements, the acquiree shall be regarded as the ultimate controller started the control and adjustment was made under current status. When preparing comparative financial statements, time limit is the time which not earlier than the Group and the acquiree are both under the control of ultimate controller, related assets and liabilities of the acquiree shall be included into the comparative statements of the consolidated financial statements of the Group, and net assets increased due to combination adjusted related items under shareholder's equity in the comparative statements. In order to prevent double calculation of the value of net assets of the acquiree, for long-term equity investment held by the Group before combination, from the date of obtaining original shareholding and the date on which the Group and the acquiree are under the same control, whichever is later, to the date of combination, the related profit or loss recognised, other comprehensive income and other change in assets, shall be written off retained earnings at the beginning of the comparative period and profit or loss for current period.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 6. Preparation of consolidated financial statements (Continued)

For subsidiaries acquired through business combination not under common control, its operating results and cash flows shall be included in the consolidated financial statements since the Group obtained its control. When preparing consolidated financial statements, adjustment shall be made to financial statements of the subsidiaries using the fair values of each identifiable assets, liabilities and contingent liabilities as basis, which were determined on date of acquisition.

If the equity of an investee not under common control is acquired through multiple transactions and the acquisition eventually forms a business combination, the accounting treatment of the consolidated financial statements should be further disclosed in the reporting period during which control was obtained. For example, Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, for shareholding of the acquiree which was holding before the date of acquisition, have to be re-measured according to the fair value of such shareholding on the date of acquisition, difference between the fair value and the carrying value shall be included as the investment income for current period. Other comprehensive income involving equity calculated under equity method which it holds before the related date of acquisition, and change in equity of other shareholders, besides net profit or loss, other comprehensive income and profit distribution, and change to investment profit or loss during the period which date of acquisition belong, except other comprehensive income incurred by the change in net liabilities or net assets from the newly measured defined benefit plan.

Proceeds from disposal of part of the equity investment in the subsidiaries without losing control and the disposal of long-term equity investment should enjoy the difference between the proportion of net assets calculated from the date of acquisition or date of combination in the consolidated financial statements, and adjust the share premium. In case the capital reserve is insufficient for offset, retained earnings will be adjusted.

When the Group loss control in the acquiree due to reasons such as disposal of part of the equity investment, remaining shareholding will be re-measured based on the fair value on the date of loss of control when preparing the consolidated financial statements. The sum of proceeds obtained from the disposal of equity and fair value of the remaining shareholding, and less the difference of the proportion of net assets of the subsidiary calculated from the date of acquisition or combination according to the original shareholding proportion, and included into the investment profit or loss of loss of control for current period, and also goodwill will be written off. Other comprehensive income related to the original equity investment in the subsidiary, will be changed to investment profit or loss for current period upon loss of control.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 6. Preparation of consolidated financial statements (Continued)

For loss of control by the Group through different transactions and disposed shareholding in subsidiaries in stages, in case when each transaction that the Group loss control through disposal of shareholding in subsidiaries belongs to a series of transactions, accounting treatment for each transaction shall be treated as one transaction which involves disposal of subsidiary with loss of control. However, the difference between the proceeds for each disposal before loss of control and the proportion of net assets corresponding to the disposal of such subsidiary shall be recognised as other comprehensive income in the consolidated financial statements, and transfer to investment profit or loss of loss of control for current period upon loss of control.

#### 7. Classification of joint arrangements and accounting treatment for joint operations

Joint arrangement of the Group includes joint operation and joint venture. As for joint operation, the Group, as the party in the joint operation, recognises assets and liabilities that it holds and assumes individually, and the assets and liabilities that it holds or assume in proportion, and income and fees will be recognised according to the related agreed individual or in proportion assets and liabilities. For assets transactions that are purchased or sale under joint operation that do not constitute business, only when profit or loss incurred from that transaction attributable to the other parties under the joint operation.

#### 8. Cash and cash equivalents

Cash in the cash flow statement of the Group represents the cash on hand and the deposit in bank available for payment at any time. Cash equivalents cash flow statement are terms which are less than three months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 9. Foreign currency transactions and translation of financial statements in foreign currency

##### (1) Foreign currency transactions

For foreign currency transactions of the Group, the amount in foreign currency shall be translated into RMB at the spot exchange rate at the date when the transactions take place. As at the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rate at the balance sheet date. Translation differences arising thereon are directly included in the profit or loss for the period, except that exchange differences arising from specific borrowings in foreign currency attributable to the construction or production of a qualifying asset for capitalization are dealt with based on the capitalization principle.

##### (2) Translation of financial statements in foreign currency

Asset and liability items in the balance sheet denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. The owners' equity items, except for the "undistributed profits", are translated at the spot exchange rate when a business takes place. Income and expense items in the income statement are translated at the spot exchange rate at the date when the transaction takes place. The translation differences arising from the above translation of statements denominated in foreign currency are presented in other comprehensive income item. Cash flows dominated in foreign currency are translated using the spot rate at the date when the cash flow occurs. Effects on cash arising from the changes in exchange rate are presented separately in the cash flow statement.

#### 10. Financial assets and financial liabilities

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

##### (1) Financial assets

###### 1) Classification, recognition and measurement of financial assets

The Group classifies financial assets into financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (1) Financial assets (Continued)

###### 1) Classification, recognition and measurement of financial assets (Continued)

The Group will classify financial assets that meet the following conditions into financial assets measured at amortized cost: ① the financial assets are managed within a business model whose objective is achieved by collecting contractual cash flow; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely the payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount, and are subsequently measured at amortized cost. Amortisation using the effective interest method, impairment, exchange gain or loss and any gains or losses on derecognition on financial assets which are not part of any hedging relationship is recorded in the current profit or loss.

The Group will classify financial assets that meet the following conditions into financial assets at fair value through other comprehensive income: ① the financial assets are managed within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; and ② the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value with related transaction costs to be included in the initial recognition amount. All gains or losses generated from financial assets which are not part of any hedging relationship, other than credit impairment losses or gains, exchange gains or losses and interest on such financial assets calculated using the effective interest method, are recognized in other comprehensive income. Upon derecognition of the financial assets, the cumulative gains or losses previously included in other comprehensive income shall be transferred out and be included in the profit or loss for the period.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (continued)

##### (1) *Financial assets (continued)*

###### 1) *Classification, recognition and measurement of financial assets (continued)*

The Group recognizes interest income using the effective interest method. Interest income is calculated and determined by applying the effective interest rate to the carrying balance of the financial asset, except: ① for the purchased or internally generated credit-impaired financial assets, their interest income is calculated and determined based on amortized cost and credit-adjusted effective interest rate of such financial assets since the initial recognition; ② for the purchased or internally generated financial assets without credit-impairment but subsequently becoming credit-impaired, their interest income is calculated and determined based on amortized costs and effective interest rate of such financial assets in subsequent periods.

The Group designates the non-tradable equity instrument investments as the financial assets measured at FVTOCI. Once the designation has been made, it shall not be revoked. For the non-tradable equity instrument investments designated by the Group which are measured at FVTOCI, the initial measurement shall be carried out according to the fair value, with the relevant transaction costs recorded in the initial recognition amount. Except that the obtained dividend (except for the part of investment cost recovery) is recognised in current profit or loss, all the other related gains or losses (including exchange gains or losses) are recorded in other comprehensive income, and shall not be subsequently transferred into current profit or loss. When such financial assets are terminated in recognition, the accumulated gains or losses previously recorded in other comprehensive income are transferred out from other comprehensive income and recorded in retained earnings.

For the financial assets other than the aforementioned financial assets which are classified as the financial assets measured at amortised cost and the financial assets measured at FVTOCI, other than the above financial assets measured at amortized cost, the Group classifies its financial assets as financial assets at fair value through profit or loss. Such financial assets are initially measured at fair value with related transaction costs to be directly included in profit or loss for the period. Gains or losses on such financial assets are included in profit or loss for the period.

For the financial assets that consist of the contingent consideration recognised by the Group in the business combination not under common control, such financial assets are classified as the financial assets measured at FVTPL.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

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

##### 2) *Recognition and measurement of transfer of financial assets*

The Group derecognizes financial assets if one of the following conditions is satisfied:

① the contractual rights to collect the cash flows from the financial asset expire; ② the financial asset has been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the financial asset; and ③ the financial asset has been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and it has not retained control over such financial asset.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the carrying amount of the transferred financial assets on the date of termination of recognition and the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (if the transferred financial assets meet both of the following conditions: the business model of the Group managing the financial assets whose objective is collecting contractual cash flows; and the contractual terms stipulate that the cash flows generated on specific dates only refer to the payment for the interests which are based on the amount of principal), are included into current profit or loss.

If the transfer of financial asset partially satisfies the conditions of derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the sum of the consideration received from the transfer and the accumulative amount of the changes of the fair value originally included in other comprehensive income which shall be apportioned to the derecognized portion (if the transferred financial assets meet both of the following conditions: the business model of the Group managing the financial assets whose objective is collecting contractual cash flows; and the contractual terms stipulate that the cash flows generated on specific dates only refer to the payment for the interests which are based on the amount of principal), and the apportioned entire carrying amount of the said financial assets are included into current profit or loss.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

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

##### 3) *Testing method and accounting treatment of financial asset impairment*

The Group impairs and recognises a loss allowance for the following items based on ECL: ① financial assets that are measured at amortised cost and financial assets measured at FVTOCI; ② loan commitments issued by the corporate other than those classified as financial liabilities measured at FVTPL and financial guarantee contracts as stipulated in clause 21.3 of ASBE 22 – Recognition and Measurement of Financial Instruments.

Credit loss refers to the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or, the present value of all cash shortfalls. ECL is the weighted average of the credit losses of financial instruments based on risks of default.

On each balance sheet date, the Group assesses whether the credit risk of the financial assets has increased significantly since initial recognition, and measures their loss provisions and recognises ECL and their changes according to the following circumstances. The resulting increase in or reversal of loss provision are included in current profit or loss as impairment losses or gains. Specifically:

- ① If the credit risk of the financial instrument has not increased significantly since the initial recognition, it is in the first stage, the loss provision is measured at the amount equivalent to the ECL of the financial instrument in the next 12 months, and the interest income is calculated according to the book balance and the actual interest rate;



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (1) Financial assets (Continued)

##### 3) Testing method and accounting treatment of financial asset impairment (Continued)

- ② If the credit risk of the financial instrument has increased significantly since the initial recognition, however, if credit impairment has not occurred, it is in the second stage, the loss provision is measured at the amount equivalent to the ECL throughout the useful time of the financial instrument, and the interest income is calculated according to the book balance and the actual interest rate;
- ③ If the financial instrument has suffered credit impairment since its initial recognition, it is in the third stage. The Group measures its loss provisions at an amount equivalent to the ECL throughout the useful life of the financial instrument, and the interest income is calculated at amortised cost and actual interest rate.

For financial instruments with relatively low credit risk on the balance sheet date, the Group assumes that the credit risk of the financial instrument has not increased significantly since initial recognition.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (1) Financial assets (Continued)

##### 3) Testing method and accounting treatment of financial asset impairment (Continued)

Judgment of whether credit risk has significantly increased since the initial recognition. The Group compares the risk of default of the financial instrument on the balance sheet date with that on the date of initial recognition to assess the change in risk of default of a financial instrument in the expected life period and assess whether the credit risk of the financial instrument has increased significantly since initial recognition. However, if the Group determines that the financial instruments only have a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instruments has not significantly increased since the initial recognition. Usually, if the receivables are overdue for more than 30 days, such circumstance indicates that the credit risk of financial instruments has increased significantly, unless the Group is able to obtain reasonable information with a supporting basis under the condition of not paying excessive costs or efforts to prove that even if the receivables are more than 30 days overdue, the credit risk has not significantly increased since the initial recognition. When determining whether credit risk has significantly increased since the initial recognition, the Group considers the reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts, including prospective information. The information considered by the Group includes: 1) the actual or expected external credit rating downgrade of the borrower. It would be more reliable if the internal credit rating can correspond to the external rating or can be confirmed by default investigation; 2) adverse changes in business, financial or external economic conditions that are expected to cause significant changes in the borrower's ability to perform its liability repayment obligations, such as rise in actual or expected interest rate and significant rise in actual or expected unemployment rate; 3) the actual or expected significant changes in the borrower's operating results, such as decrease in the borrower's income or gross profit margin, increase in business risks, working capital shortage, deterioration in asset quality, increase in gearing ratio, decrease in current ratio, management problems, and change in business scope or organisational structure (such as discontinuation of certain business segments); 4) default or overdue of other debts of the same borrower; 5) significant adverse changes in the regulatory, economic or technological environment in which the borrower is located, such as technological change which leads to a decline in the demand for borrower's products; 6) significant changes in the value of collateral as securities for debt or the quality of guarantee or credit enhancement provided by third parties, which are expected to negatively affect the borrower's intention economically to repay within the period specified in the contract or affect the probability of default. For example, if the value of collateral declines due to decrease in property prices, borrowers may be more likely to default on mortgages; 7) significant changes that are expected to negatively affect the borrower's intention economically to repay within the period specified in the contract, such as reduction of financial support available from parent company or other affiliated companies, or significant changes in the quality of credit enhancement. As for the quality changes in credit enhancement, the enterprise shall take into account the financial status of the guarantor, and whether the subordinated interest is sufficient to cover the ECL etc.; 8) significant changes in the borrower's expected performance and repayment behaviour, such as increase in number or amount of deferred repayment in a group of loan assets, and increase in the expected number of credit card holders close to the credit line or the monthly minimum repayment.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (1) Financial assets (Continued)

###### 3) *Testing method and accounting treatment of financial asset impairment (Continued)*

Presentation of allowance for ECL. The Group remeasures at each balance sheet date the ECL of financial instruments to reflect changes in the financial instrument's credit risk since initial recognition. The resulting increase in or reversal of loss allowance are included in current profit or loss as impairment losses or gains. For financial assets measured at amortised cost, the loss allowance is offset by the carrying amount of the financial asset as presented in the balance sheet; for financial assets measured at FVTOCI, the loss allowance is recognised in other comprehensive incomes without offsetting the carrying amount of the financial asset.

Write-off. The carrying amount of a financial asset is written off if there is no rational prospect of recovery of part or all of the contractual cashflow of the asset. Such write-off constitutes a derecognition event of the related financial asset. This is generally the case when the Group determines that the debtor has no asset or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, based on the Group's procedures for recovery of amounts due, financial assets that are written off could still be subject to enforcement activities. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (2) *Financial liabilities*

###### 1) *Classification, recognition and measurement of financial liabilities*

Except for the following items, the Group classifies its financial liabilities as those measured at amortised cost and subsequently measured at amortised cost using the effective interest rate method:

- ① financial liabilities at FVTPL (including derivatives of financial liabilities), including financial liabilities for trade and financial liabilities designated as measured at FVTPL upon initial recognition. These financial liabilities are subsequently measured to fair value, and the gain or loss resulted from the change in fair value and the dividend and interest payment in association with the financial liabilities are recognised in the current profit or loss.
- ② financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continuing involvements in the transferred financial assets. These financial liabilities are measured in accordance with standards applicable to transfer of financial assets.
- ③ financial guarantee contracts that do not fall within the conditions of ① or ②, and loan commitments that do not fall within the condition of ① above and are borrowed at a rate less than the market interest rate. If the Group is the issuer of such financial liabilities, after initial recognition, it is measured at the higher of the amount of loss allowance determined in accordance with the relevant provisions of standards for financial instrument impairment and the balance of the initially recognised amount less the accumulated amortisation determined in accordance with the relevant provisions of standards for income.

If the Group incurs financial liabilities from the contingent consideration recognised as the purchaser in a business combination not under common control, the financial liabilities are measured at FVTPL.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (2) *Financial liabilities (Continued)*

###### 2) *Conditions for derecognition of financial liabilities*

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from those of the existing financial liabilities, the existing financial liabilities are derecognized while the new financial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognized in whole or in part, while those financial liabilities with their terms revised are recognized as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

##### (3) *Method for determination of fair values of financial assets and financial liabilities*

Fair values of financial assets and financial liabilities of the Group are measured at the prices in principal market. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs which are used to measure the fair value have been divided into 3 levels by the Group: Level 1-inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities. Level 2-inputs are quoted prices for the asset or liability (other than those included in Level 1) that are either directly or indirectly observable. Level 3-inputs are unobservable inputs to the related assets or liabilities. The Level 1 inputs are the first priority to use by the Group, and level 3 inputs will be the last one to use. Equity investments in other equity instruments use Level 1 inputs. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### **(4) Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

##### **(5) Classification and treatment of financial liabilities and equity instruments**

The Group classifies financial liabilities and equity instruments on the following principles: (1) Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. (2) Where a financial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classified as a financial liability.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 10. Financial assets and financial liabilities (Continued)

##### (5) *Classification and treatment of financial liabilities and equity instruments (Continued)*

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial instrument or its component is attributable to equity instrument, the Group shall treat it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and shall not recognize changes in fair value of equity instrument.

#### 11. Accounts receivable

The determination method and the accounting treatment method of the ECL of accounts receivable include evaluating if the credit risk has increased significantly since the initial recognition and assessing the expected credit on a group basis.

For the accounts receivable formed in the transactions stipulated by the document “Accounting Standards for Business Enterprises No. 14 – Standard of Income” and the transactions with no significant financing component, the Group always measures the loss provision according to the amount equivalent to the ECL over the entire life period.

Judgment of whether credit risk has significantly increased since the initial recognition. The Group compares the probability of default in the expected life period of the financial instrument determined at initial recognition with that on the balance sheet date to assess whether the credit risk of the financial instrument has increased significantly. However, if the Group determines that the financial instruments only have a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instruments has not significantly increased since the initial recognition. Usually, if the receivables are overdue for more than 30 days, such circumstance indicates that the credit risk of financial instruments has increased significantly, unless the Group is able to obtain reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts to prove that even if the receivables are more than 30 days overdue, the credit risk has not significantly increased since the initial recognition. When determining whether credit risk has significantly increased since the initial recognition, the Group considers the reasonable information with a supporting basis under the condition of not paying unnecessary extra costs or efforts, including prospective information.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 11. Accounts receivable (Continued)

Assessment on a group basis. The Company conducts individual assessment on the credit risk of financial assets with obviously different credit risks, such as the receivables for which there are disputes, lawsuit or arbitration, or the receivables for which there are obvious evidences showing that the debtor is not likely able to perform the repayment obligation, etc. In addition to financial assets with individually assessed credit risks, the Company divides financial assets into different groups based on ageing characteristics, and assess their credit risks on a group basis.

Measurement of ECL. ECL is the weighted average of the credit losses of financial instruments based on risks of default. Credit loss refers to the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or, the present value of all cash shortfalls.

The Group calculates the ECL of accounts receivable on the balance sheet date. If such ECL is greater than the current book value of the impairment provision of the accounts receivable, the Group recognises the difference as the impairment loss of the accounts receivable, debiting the “credit impairment loss” and crediting the “bad debt provision”. In contrast, the Group recognises the difference as gains from impairment, and makes the contrary accounting records.

Where the Group actually incurs credit loss and determines that the relevant accounts receivable cannot be recovered, if the receivables have been approved for cancellation after verification, the Group shall debit “bad debt provision” and credit “accounts receivable” according to the approved amount of write-off. If the amount of write-off is greater than the accrued impairment loss provision, the “credit impairment loss” shall be debited according to the difference.

Based on the actual credit losses in previous years, and considering the prospective information in the current year, the policies of accounting estimates to measure the ECL are as follows: the Group determines the ECL rate in single item for accounts receivable with significantly different credit risks; in addition to determining the ECL rate for accounts receivable in single item, the Group adopts the ECL model based on the characteristics of ageing, calculates the ECL of accounts receivable through default risk exposure of accounts receivable and ECL rate, and determines the ECL rate based on the default probability and loss from default.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 11. Accounts receivable (Continued)

Accounts Receivable – Ageing by ageing groups verse ECL rates in the life period:

Ageing	ECL rates
Within 1 year	5%
1-2 years	10%
2-3 years	20%
3-4 years	50%
4-5 years	80%
Over 5 years	100%

#### 12. Accounts receivable financing

In the course of the Group managing the liquidity of the enterprises, substantially all of the notes receivable are endorsed before maturity, and the Group shall derecognise the discounted or endorsed notes receivable based on the fact that almost all the risk and reward have been transferred to the counterparty. The business model adopted by the Group to manage the notes receivable is to collect contractual cash flows as well as sell the financial asset, therefore, it is classified as a financial asset measured at fair value and the changes of which are recognised through other comprehensive income, and listed in the accounts receivable financing. The fair value determined at the initial recognition is usually also the trading price. The difference between the fair value and the trading price, if any, is recognised as follows:

- (1) Upon initial recognition, if the fair value of the financial asset or financial liability is set by the quoted price of identical asset or liability in an active market, or merely determined by the valuation techniques using observable market data, the difference between fair value and trading price is recognised as a gain or loss.
- (2) Upon initial recognition, if the fair value of the financial asset and financial liability is set by other means, the difference between fair value and trading price should be deferred. After initial recognition, the deferred difference will be confirmed as gains or losses in the corresponding accounting period depending on the degree of volatility of a certain factor within the period. This factor should only be restricted to those considered by the market participants when pricing the financial instrument, including time, etc. All gains and losses that arise from financial asset measured at FVTOCI, except for those generated by impairment and exchange differences, are charged to other comprehensive income until derecognition or reclassification of the financial asset.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 12. Accounts receivable financing (Continued)

When the financial asset is derecognised, the accumulative gains or losses which were previously charged to other comprehensive income are transferred out and included in current profit or loss.

#### 13. Other receivables

The method of determining the expected credit loss of other receivables and the accounting treatment are as follows:

The Group measures the loss provision of other receivables in accordance with the following circumstances: ① For the financial assets with no significant increase in credit risk since the initial confirmation, the Group measures the loss provision in accordance with the amount of expected credit losses over the next 12 months. ② For the financial assets with significant increase in credit risk incurred since the initial recognition, the Group measures the loss provision in the amount equivalent to the expected credit loss of the financial instruments during the entire life cycle. ③ For the financial assets purchased or derived from the credit impairment already incurred, the Group measures the loss provision according to the amount equivalent to the expected credit loss over the entire lifetime.

Assessment on a group basis. For other receivables, the Group is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the level of individual instruments, whereas it is feasible to assess whether the credit risk significantly increased on the basis of the portfolio. Therefore, the Group divides the other receivables into groups, considers and assesses whether there is a significant increase in credit risk on a group-basis by taking the items such as the types of financial instruments, credit risk rating, collateral type, initial recognition date and residual contract duration, industry in which the borrower operates and geographical location of the borrower as the common risk characteristics.

For methods to assess whether the credit risk has significantly increased since initial recognition, prospective information for the year and accounting treatment methods, please see Note IV. 11. Accounts receivable.

#### 14. Inventories

The inventories of the Group mainly include raw materials closely related to the Company's principal business, including materials and low value consumables used in the course of business of water production, wastewater treatment and household meter installation, as well as the inputs for installation works that are yet to be recognised as sales income.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 14. Inventories (Continued)

Inventories adopt the perpetual inventory system, and are valued by the actual cost when acquired. The actual costs of requisitioned or issued inventories are determined by the weighted average method at the end of each month. Low value consumables are amortised by the one-off write-off method.

On each balance sheet date, inventories are valued by the cost or net realisable value, whichever is lower. For the estimated irrecoverable part of cost due to inventory damage, obsolescence of all or partial inventories, or sale price lower than the cost, provisions for impairment of inventories are accrued. Provisions for impairment of inventories for bulk raw materials are accrued based on the difference between the cost of single inventory item and its net realisable value; for other numerous raw and auxiliary materials with low prices, inventory impairment provisions are accrued based on their categories.

#### 15. Contract Assets

##### **(1) Method and standards for recognition of contract assets**

A contract asset represents the Group's right, which depends on factors other than the passage of time, to receive consideration in exchange for goods that the Group has transferred to a customer. If the Group sells two clearly distinguishable goods to customers, it is entitled to receive payment for one of the goods that has been delivered, but the payment is also dependent on the delivery of the other of the goods, the Group regards the right to receive payment as a contract asset. Contractual assets of the Group mainly comprise completed but unsettled assets of engineering business and guarantee deposits receivable.

##### **(2) Method of determination and accounting treatment of expected credit loss of contract assets**

For method of determination of expected credit loss of contract assets, please refer to the description in "11. Accounts receivable and receivables" above.

About the accounting treatment method, the Group calculates the expected credit loss of contract assets on the balance sheet date. If the expected credit loss is greater than the carrying amount of the current provision for contract assets, the Group recognises the difference as impairment losses, and it will debit "assets impairment loss" and credit "provision for impairment of contract assets". Otherwise, the Group recognises the difference as an impairment gain and makes the opposite accounting record.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 15. Contract Assets (Continued)

##### **(2) Method of determination and accounting treatment of expected credit loss of contract assets (Continued)**

If the Group incurs credit loss and determines that the relevant contract assets are unrecoverable, subject to the approval for writing off, it will debit “provision for impairment of contract assets” and credit “contract assets” based on the approved amount written-off. If the written-off amount is greater than the loss allowance made, the “assets impairment loss” is debited for the difference.

#### 16. Contract costs

##### **(1) Method of determination of amount of assets relating to contract costs**

The Group’s assets relating to contract costs include contract performance cost and contract acquisition cost.

Contract performance cost refers to the cost incurred by the Group to perform a contract which does not fall under the scope of the Accounting Standards for Business Enterprises and meets all of the following conditions, which is recognised as an asset as contract performance cost: the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract; the costs generate resources of the Group that will be used in satisfying performance obligations in the future; the costs are expected to be recovered.

Contract acquisition cost refers to the incremental cost for the Group to obtain a contract which is expected to be recoverable which is recognised as an asset as contract acquisition cost. If the amortisation period is no more than one year, the contract acquisition cost is included in profit or loss as incurred. Incremental cost refers to the cost which will not be incurred by the Group had no contract been acquired (such as commission etc.). Other expenses incurred by the Group to obtain contracts (other than the incremental cost which is expected to be recoverable) (such as travelling expenses which will be incurred regardless of whether the contract will be obtained) are included in profit or loss as incurred, save for those expressly to be borne by customers.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 16. Contract costs (Continued)

##### (2) *Amortisation of assets relating to contract costs*

The Group's assets relating to contract costs are amortised using the same basis as that for recognition of the revenue from goods relating to the assets, which are included in profit or loss.

##### (3) *Impairment of assets relating to contract costs*

In determining the loss on impairment of assets relating to contract costs, the Group first determines the impairment loss for other assets relating to contract costs recognised in accordance with the relevant Accounting Standards for Business Enterprises and then makes provision for impairment based on the excess of its carrying value over the sum of the remaining consideration expected to be received from transfer of the goods relating to the asset and the cost expected to be incurred for transfer of the relevant goods, which is recognised as loss on impairment of assets.

If there is any change in the factors causing impairment in the previous periods, resulting in the said difference higher than the carrying value of the asset, the provision for impairment of assets previously made is reversed and is included in profit or loss. However, the carrying value of the asset following reversal shall not exceed the carrying value of the asset as at the date of reversal had no provision for impairment been made.

#### 17. Long-term receivables

The long-term receivables of the Group are mainly the principal and interest of the investment and construction return of the wastewater treatment plant due from the government departments pursuant to the concession agreements entered into with the local government departments as part of the wastewater treatment fee, which are usually recovered together with the operation service fee charged in accordance with the contracts in the current period. The payments are made by governments at different levels or their authorised departments, and the payees remain the same, as such the credit risk characteristics are the same. Long-term receivables are measured at amortised cost and interest income is recognised for the current period. The effective interest rate generally remains unchanged during the duration of long-term receivables. The Group presents long-term receivables due within one year (inclusive) from the balance sheet date as non-current assets due within one year.

For determination of ECL of long-term receivables, please see the testing method and accounting treatment of financial asset impairment in Note IV. 10.(1) Financial assets.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 18. Long-term equity investments

Long-term equity investments of the Group are the investments in subsidiaries and investment in associates and investment in joint ventures.

Basis for determination in respect of common control is that all participated parties or a group of participated parties control such arrangement, and that policies of such related business of such arrangement have to obtain unanimous agreement by all parties that are control such arrangement.

When the Group directly or indirectly throughout its subsidiary owns 20% (inclusive) or more but less than 50% shares with voting rights in the investee, it is generally considered that the Group has significant influence on the investee. For voting rights less than 20% in the investee, the board or representative in similar authority in the investee or the implementation processes of financial or operation policies of investee have also been taken into account, or significant transaction with the investee, or management personnel send to the investee, or significant technology information provided to the investee which have significant influence to the investee.

If the Group has control over an investee, it is a subsidiary of the Group. For long-term equity investments obtained through business combination under common control, proportion of carrying value of net assets obtained on the date of combination in the consolidated financial statements of the ultimate controller shall be accounted as the initial investment cost of the long-term investment. For carrying value of net assets of the acquiree which is negative on the date of combination, investment cost of long-term equity investment is calculated as zero.

For equity interests in investees under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not fall under a series of transactions, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements of the ultimate controller, and accounted as the initial investment cost of long-term equity investment on the date of combination. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under common control, cost of combination will be treated as the initial investment cost.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 18. Long-term equity investments (Continued)

For equity interests in investees not under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of cost of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees not under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not belong to a series of transaction, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the investee when it directly disposes of related assets or liabilities upon disposal. If the equity held before the purchase date is calculated by equity method, other related comprehensive incomes calculated by the original equity method shall not be adjusted, and the accounting treatment shall be conducted as per the same basis as that of disposing related assets or liabilities of the investee when disposing the investment. Equity held before the purchase date is non-trading equity instruments designated as measured at FVTOCI, and the accumulated changes in fair value originally included in other comprehensive income shall not be transferred into the current profit or loss.

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment is expensed as the cost of investment based on the actual amount of cash paid for the purchase. For long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued. For long-term equity investments invested in the Group by the investor, the investment cost is the agreed consideration as specified in the contract or agreement. For long-term equity investment acquired through debt restructuring and exchange of non-monetary assets, investment cost are determined in accordance with the requirements of the relevant accounting standards.

Investments in subsidiaries are accounted for the Group using cost method, while investments in the associates and joint ventures are accounted for under equity method.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be increased according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the investee, it shall be recognised as investment income for current period using the amount which it entitles.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 18. Long-term equity investments (Continued)

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders' equity of the investee. When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognised after adjustment is made to the net profit of the investee.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For long-term equity investments accounted for under equity method, the relevant other comprehensive income accounted for by the original equity method shall be accounted for on the same basis as the investee's direct disposal of related assets or liabilities when the equity method is terminated. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be all transferred to the current investment gain when the equity method is terminated.

When the Group loss control in the investee due to reasons such as disposal of part of the equity investment, remaining shareholding after disposal of will be accounted for under ASBE 22 – Recognition and Measurement of Financial Instruments, difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for current period. Other comprehensive income recognised in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method, it shall be using the same accounting basis as the investee directly disposing related assets or liabilities, according to its proportion. The owner's equity recognised by changes in other owner's equity other than profit and loss, other comprehensive income and profit distribution shall be transferred to the current investment gain according to its proportion.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 18. Long-term equity investments (Continued)

For loss of control in the investee due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the investee after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under ASBE 22 – Recognition and Measurement of Financial Instruments, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

If the transactions from the step-by-step disposal of equity to the loss of controlling equity do not fall under a series of transactions, the Group shall separately carry out accounting treatment for each transaction. If the transaction falls under a series of transactions, each transaction is accounted for as a disposal of subsidiary with control lost. However, the difference between the consideration for each transaction before losing control and the carrying value of the long-term equity investments corresponding to the equity disposed of is recognised as other comprehensive income and transferred to profit or loss upon loss of control.

#### 19. Investment properties

Investment properties of the Group includes land use rights and buildings which have been rented.

Investment properties of the Group are subject to subsequent measurement on a cost basis, and depreciated or amortised based on their estimated useful life and net residual rate by straight-line method. The estimated useful life, net residual rate and annual depreciation (amortisation) rate of the investment properties are as follows:

<b>Category</b>	<b>Depreciation life (year)</b>	<b>Estimated residual rate (%)</b>	<b>Annual depreciation rate (%)</b>
Land use right	30-50	0	3.33-2.00
Buildings and structures	30-50	5	3.17-1.90

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 20. Fixed assets

Fixed assets of the Group are tangible assets that held for production of goods or provision of services, leasing to others, or for administrative purposes; have useful life over one accounting year with unit value over RMB3,000.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets of the Group comprise buildings and structures, special equipment, general equipment, pipeline assets, transport equipment, office equipment, etc.

Apart from fixed assets which are provided in full and continue to be in use and lands that are accounted separately, the Group made provision for all the fixed assets. The Group made provision for depreciation using straight-line method. The useful life, estimated residual value ratio and depreciation rate of fixed assets of the Group are classified as below:

No.	Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates (%)
1	Office equipment	5.00	4.00	19.20
2	Buildings and structures	30.00	4.00	3.20
3	Pipeline assets	20.00	4.00	4.80
4	General equipment	8.00	4.00	12.00
5	Transport equipment	8.00	4.00	12.00
6	Special equipment	8.00	4.00	12.00

The Group makes the assessment on the estimated useful life, estimated rate of salvage value and the depreciation method of fixed assets at each financial year-end. If any changes occur, they will be regarded as changes on accounting estimates.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 21. Construction in progress

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the project budget or actual cost of construction. Depreciation is calculated from the next month of the transfer. The cost of the asset is adjusted when the construction finalization procedures are completed.

As the licensee of BOT projects, if there are any intangible assets after the construction of the project is completed, the input from the Group will be temporarily included in the project during the construction period, and transferred to intangible assets after the construction is completed and the project starts to operate or meets the operation state as expected.

#### 22. Borrowing costs

Borrowing cost incurred from fixed assets, investment properties and inventories which require construction or production activities for over 1 year, and can reached usable or sale condition after that. Borrowing costs start capitalization when the assets expense and borrowing costs were incurred and the construction or production activities, in order to make assets to reach the expected usable or sale condition have started; When construction or assets that fulfil the capitalization conditions reached the expected usable or sale condition, the capitalization have to be terminated. Borrowing costs incurred afterward are included into the profit or loss for current period. If assets that fulfil capitalization conditions interrupted abnormally during construction or production progress, and such interruption occurred for more than three consecutive months, capitalization of borrowing costs have to terminate, until construction of assets or production activities resumed.

The amount of interest, accrued from the funds borrowed under a specific-purpose, to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. The Group determines the amount of interest, accrued from the funds borrowed under general-purpose, to be capitalised by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 23. Right-of-use assets

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee.

##### **(1) Initial measurement**

At the commencement date, the Group shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise: ① the amount of the initial measurement of the lease liability; ② any lease payments made at or before the commencement date, less any lease incentives received; ③ any initial direct costs incurred by the lessee, which is defined as incremental costs arising due to the obtaining lease; and ④ an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, while costs of production of inventory are excluded.

##### **(2) Subsequent measurement**

At the commencement date, the Group shall measure the right-of-use asset at cost, which is the measurement of right-of-use assets at cost less accumulated depreciation and accumulated impairment losses. If the Group re-measures lease liability in accordance with the relevant provisions of the lease standards, the book value of the right-of-use assets shall be adjusted accordingly.

##### *Depreciation of right-of-use asset*

At the commencement date, the Group depreciates the right-of-use asset. Right-of-use assets are usually depreciated starting from the month of the lease term. The depreciation amount accrued is included in the cost of the relevant asset or current profit or loss based on the use of the right-of-use asset.

When determining the depreciation method of the right-of-use assets, the Group makes decision based on the expected consumption method of the economic benefits related to such right-of-use assets, and depreciates the right-of-use assets by the straight-line method.

When determining the depreciation period of the right-of-use assets, the Group follows the following principles: If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 23. Right-of-use assets (Continued)

##### (2) *Subsequent measurement (Continued)*

###### *Impairment of right-of-use assets*

If the right-of-use asset is impaired, the Group performs subsequent depreciation based on the book value of the right-of-use assets after deducting the impairment loss.

#### 24. Intangible asset

The Group's intangible assets mainly include land use right, concessions, application software, etc. Intangible assets are measured at the actual costs at acquisition. For purchased intangible assets, actual paid cost and other relevant expenses are used as the actual cost. For intangible assets invested by investors, the actual cost is determined according to the values specified in the investment contract or agreement, while for the unfair agreed value in contract or agreement, the actual cost is determined at the fair value.

For the intangible asset which is owned by an acquiree in a corporate combination not under common control but is not confirmed in its financial statement, the Group recognises it as intangible asset at fair value upon the initial recognition of the acquiree's assets if it meets one of the following conditions after thorough identification and reasonable judgement on intangible asset: (1) it is generated from contractual rights or other legal rights; (2) it can be separated or divided from the acquiree and be sold, transferred, licensed, rented or exchanged individually or together with the related contracts, assets and liabilities.

##### (1) *Land use rights*

Land use rights are amortised on the straight-line basis over its remaining term since the commencement date of transfer. If the acquisition costs of the land and the buildings cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

##### (2) *Concessions*

The Group engages in public infrastructure business through build-operate-transfer (BOT) model. Project companies obtain concessions of public infrastructure projects from government departments and engage in the building and operation of the projects. After the expiration of the concessions, the project companies are required to transfer the relevant infrastructure to the governments or the government designated departments.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 24. Intangible asset (Continued)

##### (2) Concessions (Continued)

Under the contracts, project companies have a right to receive fees from those who receive services during the operation period after the construction of relevant infrastructure is completed. However, if the amount of fees is uncertain, such right does not constitute an unconditional right to receive cash. The costs paid by project companies in the process of purchasing and constructing infrastructure are recognised as intangible assets. If the contract stipulates that within a certain period after the infrastructure is completed, the project company can unconditionally receive a determined amount of cash or other financial assets from the contract grantor, or in the case that the fee charged by the project company for providing operating services is lower than a certain limited amount, and the contract grantor is responsible for compensating the shortfall to the project company in accordance with the provisions of the contract, the project company shall recognise a financial asset. The Group and the project company make a comprehensive judgment according to the provisions of the BOT contracts and the actual situation to determine whether the project company can unconditionally receive a determined amount of cash or other financial assets from the contract grantor, and, in the case that the fee charged by the project company for providing operating services is lower than a certain limited amount, whether the contract grantor is responsible for compensating the shortfall to the project company in accordance with the provisions of the contract to meet the determined amount of cash or other financial assets.

Most BOT wastewater treatment projects of the Group stipulate commitments for the basic water volume. The Group does not recognise such commitments as a financial asset, but recognises the contract as an intangible asset as a whole based on the following considerations: 1. the basic water volume commitment is only to restrict the contract grantor to fulfill its obligations as the grantor of the wastewater treatment project to ensure that the project invested by the Group has the designed minimum wastewater treatment volume, and does not provide the grantor has to unconditionally pay the corresponding determined amount of wastewater treatment fee; 2. the government department as the grantor does not consider that it has any unconditional obligation to pay the determined amount related to the basic water volume agreed by the investment. The grantor is only the government procurement entity and pays the procurement fees based on the services provided by the Group, and the grantor does not recognise the corresponding financial liabilities; 3. Separating the basic water volume as a financial asset involves the estimation of converting the basic water volume into future cash flow. The estimation process is highly subjective and unreliable. Subsequent adjustments during the contract period are frequent, which is difficult to provide comprehensible and fair financial information for report users. BOT concession projects recognised as intangible assets are amortised by the straight-line method within the concession period stipulated in the contracts.

## Notes to the Financial Statements (Continued)

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(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 24. Intangible asset (Continued)

##### (3) Office and other software

The Group's application software and other intangible assets are amortised on the straight-line basis over of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortisation amount is accounted into profit or loss in the current period according to the beneficiary object of intangible assets.

The Group makes the assessment on the estimated useful life and amortisation method of intangible assets with limited useful life at the end of each year. Any changes will be dealt with as changes on accounting estimates.

#### 25. Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving entities under common control.

At the end of each year, the asset groups or asset group portfolios related to goodwill are tested for goodwill impairment. Once recognised, asset impairment loss will not be reversed in the subsequent accounting periods.

#### 26. Impairment of long-term assets

The Group would assess intangible assets such as long-term equity investment, investment properties measured by the cost model, fixed assets, construction in progress, right-to-use assets and intangible assets with limited useful lives at each of the balance sheet date. When there is indication that there is impairment, the Group would perform impairment test. Impairment test should be made for goodwill and intangible assets with uncertain useful life, at the period end regardless of whether there is indication of impairment loss.

If the impairment test shows that the carrying value of the asset is greater than its recoverable amount, the difference is recognised as impairment loss. An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 27. Long-term prepaid expenses

Long-term deferred expenses of the Group are expenses which have incurred but shall be amortised over more than 1 year of amortisation period (not including 1 year) of the current and future periods. Such expenses are amortised on a straight-line basis over the estimated benefit period. If a long-term deferred expense item is not beneficial to the future accounting period, the amortised value of the unamortised item shall be transferred to the current profit or loss in full.

#### 28. Contract liability

A contract liability reflects the Group's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If the customer has paid the contract consideration or the Group has obtained the unconditional rights to consideration before the Group transfers goods to the customer, the Group will present the amount received or receivable as a contract liability at the time of actual payment by the customer or the due date of the amount to be paid by the customer, which is the earlier.

#### 29. Employee compensation

Staff remuneration of the Group mainly includes short-term remuneration, post-employment benefits, termination benefits and other long-term benefits.

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs etc. Short-term remuneration incurred during the accounting period in which the staff provided services is recognised as a liability, and included in profit or loss for the current period or as related asset cost in accordance with beneficiaries.

Post-employment benefits mainly include pension insurance premium and unemployment insurance premium. According to the Company's risks and obligations, they are classified as defined contribution plans. As for the defined contribution plans, the contributions which are made for individual subjects in exchange for the staff's services rendered in the accounting period shall be recognized as liabilities on the balance sheet date and included in profits or losses in the current period or relevant asset costs according to the beneficiaries.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 29. Employee compensation (Continued)

Dismissal benefit arises from the compensation provided to an employee for terminating the labour relationship before the expiration of the labour contract between the Group and the employee, or for encouraging the employee to voluntarily accept the termination. Liabilities in relation to the employee emolument arising from dismissal benefit are recognised upon dismissal, and included in the current profit or loss. For the compensation payment which is expected to be paid over a year, it is discounted at an appropriate discount rate and included the current profit or loss.

Other long-term employee benefit refers to all employee benefits except for short-term salary, post-employment benefit and dismissal benefit.

#### 30. Lease Liabilities

Lease liability reflects the closing carrying value of the Group's outstanding lease payment.

##### (1) *Initial measurement*

The lease liability is initially measured at the present value of the outstanding lease payments on the commencement date of the lease term.

##### 1) *Lease payment*

The lease payment refers to the amount paid by the Group to the lessor in relation to the right to use the leased asset during the lease term, including: ①The fixed payment and the substantial fixed payment, net of the lease incentive amount when there is a lease incentive; ②The variable lease payments depending on the index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③The exercise price of the call option, provided that the Group reasonably determines that it will exercise the option; ④ The amount payable to exercise the option to terminate a lease, provided that the lease term reflects that the Group will exercise the option to terminate the lease; ⑤The amount payable based on the residual value of the security provided by the Group.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 30. Lease Liabilities (Continued)

##### (1) Initial measurement (Continued)

###### 2) Discount rate

In calculating the present value of the lease payment, if it is impossible to determine the interest rate implicit in lease, the incremental borrowing rate of the Group shall be adopted as the discount rate. The incremental borrowing rate is defined as the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. Such rate is related to ① The Group's conditions, including its solvency and credit status; ② the term of "borrowing", being the lease term; ③ the amount of "borrowing", being the amount of the lease liabilities; ④ "mortgage condition", namely, the nature and quality of the underlying assets; ⑤ the economic environment, including the jurisdiction where the lessee is located, the denominated currency, and the timing when contract was signed, etc. The Group takes the bank loan interest rate as the basis and adjusts the above factors to achieve the incremental borrowing interest rate.

##### (2) Subsequent measurement

After the commencement date, the Group conducts subsequent measurement of the lease liabilities according to the following principles: ① When confirming the interest of the lease liabilities, increase the carrying amount of the lease liabilities; ② When paying the lease payment, reduce the carrying amount of the lease liabilities; ③ When the lease payment changes due to revaluation or lease changes, the book value of the lease liability is remeasured.

The lessee shall calculate the interest expenses of the lease liabilities for each period of the lease term at a cyclically fixed interest rate and include them in profit or loss for the current period, except for those subject to capitalization. The cyclical interest rate refers to the discount rate used by the Group in the initial measurement of lease liabilities, or the amended discount rate used by the Group when lease liabilities need to be remeasured at the revised discount rate due to changes in lease payment or change of lease.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 30. Lease Liabilities (Continued)

##### (3) Remeasurement

After the commencement date, the Group remeasures the lease liability based on the present value of the lease payment after the change and the revised discount rate, if the following situation arises. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss. ① a modification in the in-substance fixed lease payments (In this case, discounted using the original discount rate); ② a change in the amounts expected to be paid under residual value guarantees; ③ a change in future lease payments arising from change in an index or rate (In this case, discounted using the revised discount rate); ④ a change in assessment of the purchase option (In this case, discounted using the revised discount rate); ⑤ changes in the evaluation result or actual exercise of the option to renew or terminate the lease (In this case, discounted using the revised discount rate).

#### 31. Provisions

The Group recognises provision for external guarantee, commercial acceptance bill discount, pending litigation or arbitration and product quality assurance after comprehensively judges based on the specific situation whether the Group undertakes any current obligation and whether the amount of such obligation can be reliably measured. According to the requirements of the contracts of the Group's BOT projects, the Group has obligations to maintain the relevant infrastructure in a certain service capacity or in a certain useful state before transfer the same to the contract grantor. For this obligation, the Group recognises provisions based on the outflow of economic benefits that is very likely to be incurred and the time value of money according to the contract terms and the specific conditions of the project facilities.

A provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow. The Group will review the carrying amount of a provision at each balance sheet date. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount shall be adjusted to the current best estimate.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 32. Recognition and measurement of revenue

The revenue of the Group mainly included Tap water sales revenue, wastewater service revenue, pipeline and household meter installation revenue, etc.

The Group recognizes revenue when a performance obligation in the contract is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customers.

When the contract contains two or more performance obligations, on the inception of the contract, the transaction price is allocated to each separate performance obligation in proportion to the stand-alone price of the promised goods or services, and the revenue is recognized according to the transaction price allocated to each performance obligation.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price confirmed by the Group does not exceed the amount that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. An entity shall recognize a refund liability if the entity expects to refund some or all of the consideration to the customer which is not included in the transaction price. Where there is significant financing component in the contract, the Group shall determine the transaction price on the basis of the amount payable in cash when the customer assumes control of the goods or services. The difference between the transaction price and the contract consideration shall be amortized by the effective interest rate method during the contract period. The Group shall not take into account the existence of a significant financing component in the contract if the Group expects, at contract inception, that the period between when the customer acquires the control of a promised good or service and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation over time, if one of the following criteria is met; otherwise, it satisfies a performance obligation at a point in time:

1. The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs.
2. The customer can control the asset which is created by the Group’s performance.
3. The Group’s performance does not create an asset with an alternative use and the Group has an enforceable right to receive payment in respect of performance completed to date during the whole contract period.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 32. Recognition and measurement of revenue (Continued)

For a performance obligation satisfied over time, the Group shall recognize revenue over time by measuring the process towards complete satisfaction of the performance obligation, and determines the progress of performance according to the input method. If the Group unable to reasonably measure the progress towards complete satisfaction of a performance obligation and the costs incurred by the Group can be expected to be compensated, the revenue shall be recognized according to the costs incurred until such time that it can reasonably measure the process towards complete satisfaction of the performance obligation.

For a performance obligation satisfied at a point in time, the Group shall recognize revenue when the customer obtains control of relevant goods or services. In judging whether customers obtain control of promised goods or services, the Group considers the following indications:

1. The Group has a present right to receive the payment in respect of the goods or services;
2. The Group has transferred the legal title of the goods to customers;
3. The Group has transferred physical possession of the goods to customers;
4. The group has transferred the significant risks and rewards of the ownership of the goods to the customers;
5. Customers have accepted the goods or services.

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's specific revenue recognition principles are as follows:

##### **(1) Tap water sales revenue**

The Group's tap water sales revenue is recognised monthly based on the actual sales volume recorded by the business department and the effective unit price (excluding value-added tax, wastewater treatment fee collected for other parties, utility surcharge and other relevant taxes) approved by the pricing department.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 32. Recognition and measurement of revenue (Continued)

##### **(2) Wastewater treatment service revenue recognition principle**

Wastewater treatment service revenue is recognised in accordance with the concession agreements entered into with the concession grantors and based on the agreed treatment unit price and the settlement treatment volume confirmed by both parties.

##### **(3) Revenue from provision of labour service recognition principle**

The revenue from labour services of the Group is mainly generated from provision of pipeline and household meter installation services. The Group recognises the sales revenue after the works is completed and passed the completion acceptance. The accumulated work expenditure incurred before the recognition of sales revenue are presented as inventory. Inventory impairment allowance is provided if the estimated recoverable amount is less than the work expenditure.

#### 33. Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration. A government grant is recognised when the Group complies with the conditions attaching to the grant and when the Group is able to receive the grant.

Where a government grant is in the form of a transfer of monetary asset, it is measured at the amount received. Where a government grant is made on the basis of fixed amount or there are conclusive evidence at the end of the year that the Group the conditions attaching to the grants are satisfied and it is expected the Group is entitled to receive the grant, it is measured at the amount receivable. Where a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value. If fair value cannot be determined reliably, it is measured at a nominal amount of RMB1.

Government grants of the Group are classified into asset-related government grants and income-related government grants. Assets-related government grants are those grants obtained for the purpose of acquisition or construction or in other ways to form long-term assets. Income-related government grants are those government grants other than the asset-related government grants. Where the document from the government has not specified the object to be granted, it will be determined according to the above principle.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 33. Government grants (Continued)

An asset-related government grant is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For an income-related government grant, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

#### 34. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are recognized based on the temporary differences between the tax bases and the carrying amount of assets and liabilities. Deferred tax asset is recognised for the deductible tax losses or tax credit that can be carried forward to subsequent years for deduction of taxable profit in accordance with tax laws. As at balance sheet date, deferred tax assets are determined using the applicable tax rates that are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference. On the balance sheet date, the carrying value of the recognised deferred income tax assets is reviewed. If it is very likely that no future taxable profits will be available to deduct the deferred income tax assets, the carrying value of the deferred income tax assets will be reduced. If it is very likely that sufficient taxable profits will be available, the amount reduced will be reversed.

#### 35. Lease

##### (1) *Identification of lease*

Lease refers to a contract under which the lessor transfers the right of use of assets to the lessee for consideration within a certain period of time. At the commencement date of the contract, the Group assesses whether the contract is a lease or contains a lease. If a party to the contract transfers the right of use of an identified asset or several identified assets for consideration within a certain period of time, such contract is regarded as leasing or includes leasing. In order to determine whether the right to control the use of the identified assets within a certain period of time has been transferred in the contract, the Group assesses whether the customers in the contract are entitled to substantially all economic benefits arising from the use of the identified assets and have the right to dominate the use of identified assets during the period of use.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

##### (1) Identification of lease (Continued)

Where a contract concurrently contains multiple separate leases, the Group splits the contract and conduct accounting treatment respectively for all separate leases. Where a contract concurrently includes both leased and non-leased parts, the Group shall split the leased and non-leased parts and conduct accounting treatment.

##### (2) The Group as lessee

###### 1) Lease recognition

On the beginning date of the lease term, the Company recognizes the right-of-use assets and lease liabilities of the lease. For the recognition and measurement of right-of-use assets and lease liabilities, see “23. Right-of-use assets” and “29. Lease liabilities” of Note IV.

###### 2) Changes in leases

Changes in leases refer to the changes in the lease scope, lease consideration, and lease term other than the original contract terms, including the addition or termination of the rights of use of one or more leased assets, and the extension or shortening of the lease period stipulated in the contract. The effective date of the lease change refers to the date both parties agreed on the lease change.

If modification of lease happens and meets the following conditions, the Group will conduct accounting treatment for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease or extended the lease term by increasing the rights use of one or more leased assets; ② the increased consideration and the individual price of the expanded part of lease or extension of lease term are equivalent after adjustment is made in accordance with situation of the contract.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

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

###### 2) *Changes in leases (Continued)*

If accounting treatment for the modification of lease as a separate lease is not conducted, on the effective date, the Group shall apportion the consideration of the changed contract in accordance with the relevant provisions of the lease standards, and re-determine the lease period after the change; and discount the modified lease payments using the revised discount rate, in order to remeasure the lease liabilities. When calculating the present value of the lease payments after modification, the Group adopts the interest rate implicit in the lease for the remaining lease periods as the discount rate; if the lease interest rate implicit in the lease for the remaining lease period cannot be readily determined, the lessee's incremental borrowing rate shall then be used by the Group as the discount rate on the effective date of modification of lease. In view of the consequences of the above adjustment of the lease liabilities, the Group conducts accounting treatment in each of the following cases accordingly: ① if the modification of lease results in a narrower scope of lease or a shorter lease term, the lessee shall reduce the book value of the right-of-use assets, and recognise the gain or loss relevant to the partial or complete termination of the leases in the current profit or loss; ② for other modification of lease that may lead to remeasurement of lease liabilities, the lessee adjusts the book value of the right-of-use assets accordingly.

###### 3) *Short-term leases and low-value asset leases*

For short-term leases with a lease period of not more than 12 months and low-value asset leases which are brand-new assets, the Group does not recognise the right-of-use assets and lease liabilities. During different periods in the lease term, lease payments on short-term leases and leases of low-value assets are recognised as relevant asset costs or current profit or loss on a straight-line basis or other systematic and reasonable methods over the lease term.

##### (3) *The Group as a lessor*

Based on assessment as stated in (1), if the contract is lease or includes lease, such lease for which the Group is a lessor are classified as finance or operating on the lease commencement date.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

##### (3) *The Group as a lessor (Continued)*

The lessor classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Other leases other than finance lease shall be classified as operating leases.

A lease is usually classified as a finance lease when one or more of the following conditions are satisfied: ① At the expiration of the lease term, the ownership of the leased asset is transferred to the lessee. ② The lessee has the option to purchase the leased asset. The purchase price entered into is sufficiently low compared to the fair value of the leased asset when the option is exercised. Therefore, it can be reasonably determined at the commencement date of the lease that the lessee will exercise the option. ③ Although the ownership of the asset is not transferred, the lease term accounts for the majority of the useful life of the leased assets(not lower than 75% of the useful life of the leased assets). ④On the commencement date of the lease, the present value of the lease receivable amount is basically equivalent to the fair value of the leased asset (not lower than 90% of the fair value of the leased assets). ⑤ The leased assets are of a special nature. If no major modifications are made to them, only the lessee can use them. If one or more of the following conditions exist in a lease, the Company may also be classified as a financial lease: ①If the lessee stops the lease, the lessee shall bear the losses caused by the termination of the lease to the lessor ; ② The profits or losses caused by the fluctuation of the fair value of the balance of assets belong to the lessee ; ③ The lessee can continue to lease far below the market level for the next period.

##### 1) *Accounting treatment for financial lease*

###### Initial measurement

At the beginning of the lease term, the Company confirms the financial lease receivable on the financial lease and terminates the recognition of the financial lease assets. When the initial measurement of the financial lease receivable is made by the Group, the Group uses the net lease investment as the entry value of the finance lease receivables.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

##### (3) The Group as a lessor (Continued)

###### 1) Accounting treatment for financial lease (Continued)

###### Initial measurement (Continued)

The net lease investment is the sum of the unsecured residual value and the present value of rental receipts that has not been received on the start date of the lease term, which is discounted according to the interest rate implicit in lease. The amount of the lease receivable refers to the amount that the Group should collect from the lessee for the purpose of transferring the leased assets during the lease term, including: ①The fixed payment amount and the substantial fixed payment amount to be paid by the lessee, if there is a lease incentive, the amount related to the lease incentive is deducted; ②Variable lease payments depending on the index or ratio, and such amounts, are determined at the initial measurement based on the index or proportion at the beginning of the lease period; ③The exercise price of the purchase option, provided that it is reasonably determined that the lessee will exercise the option; ④The lessee exercises the amount to be paid for the termination of the lease option, provided that the lease period reflects the lessee's exercise of the option to terminate the lease; ⑤The residual value of the guarantee provided by the lessee, the party concerned with the lessee and the independent third party with the financial ability to perform the guarantee obligation.

###### Subsequent measurement

The Group calculates and recognises interest income for each period of the lease term based on a fixed periodic interest rate. Such periodic interest rate refers to the embedded discount rate used to determine the net lease investment. In the case of intermediate lease, if it is impossible to determine the embedded discount rate under such intermediate lease, discount rate of the original lease shall be adopted and adjustments shall be made based on initial direct costs of such intermediate lease. For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as a financial lease when the change becomes effective on the lease start date, its discount rate shall be revised according to relevant regulations.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

##### (3) The Group as a lessor (Continued)

###### 1) Accounting treatment for financial lease (Continued)

Accounting treatment for lease modification

If the finance lease changes and meets the following conditions, the Group will account for the change as a separate case for accounting treatment: ①The modification expands the scope of the lease by increasing the right to use one or more leased assets; ②The increased consideration is equal to the individual price of the expanded portion of the lease, as adjusted by the contractual situation.

For a financial lease modification that is not accounted for as a separate lease, if the lease is classified as an operating lease when the change becomes effective on the lease start date, the Group begins accounting as a new lease from the effective date of the lease change and uses the net lease investment before the effective date of the lease change as the book value of the leased asset.

###### 2) Accounting treatment for operating lease

Treatment of lease payment

Rental receipts under an operating lease are recognised as rental income on a straight-line basis over the period of the lease.

Incentive measures provided

Total rental is recognised on a straight-line basis over the period of the lease, without excluding the rent-free period, rental fee are recognised during the rent-free period. If the Group has undertaken certain expenses of the lessee, the expenses will be deducted from total rental income, and the rental income will be allocated according to the balance of the rental income after deduction.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 35. Lease (Continued)

##### (3) The Group as a lessor (Continued)

###### 2) Accounting treatment for operating lease (Continued)

###### Initial direct costs

The initial direct costs incurred by the Group in relation to the operating leases shall be capitalized as the costs of the subject leased asset and apportioned on the same basis as the rental income recognition during the lease term, and included in current profit or loss.

###### Depreciation

For fixed assets in operating lease, the Group measures the depreciation in accordance with depreciation policies for similar assets; for other operating lease assets, the Group adopts a systematic and reasonable method on amortization.

###### Variable lease payments

The variable lease payments received by the Group that are not included in the lease receivables related to the operating leases are recognised in profit or loss in the period in which they are actually incurred.

###### Operating lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any received or receivable rental receipts relating to the original lease as part of the lease receipts for the new lease.

#### 36. Discontinued operation

Discontinued operation refers to a component of the Group which meets one of the following requirements and can be distinguish separately and has been already disposed of or classified as held-for-sale: (1) the component represents an independent major line of business or a major independent geographical area of operations; (2) the component is part of a plan for the contemplated disposal of an independent major line of business or a major independent geographical area of operations; (3) the component is a subsidiary acquired exclusively for the purpose of resale.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 37. Accounting of income tax

The accounting of income tax of the Group will be conducted by adopting the balance sheet liability method. Income tax expenses include current income taxes and deferred income taxes. Other current income taxes and deferred income taxes or revenues are recognised in current profit or loss, except for the current income taxes and deferred income taxes that are related to the transactions and items directly included in shareholders' equity and the book value of deferred income taxes generated by business merger for goodwill adjustment.

Current income tax refers to the amount that is determined by calculation for transactions and events occurring in that phase and shall be paid by enterprises to the tax authority according to the tax laws, i.e. income tax payable; deferred income tax refers to the difference between the due amount of deferred income tax assets and liabilities that shall be recognised by adopting the balance sheet liability method at the end of the period and the original amount that has been recognised.

#### 38. Segment information

Operating segments are identified on the basis of internal organisation structure, management requirements and internal reporting policies. The reporting segments are determined on the basis of operating segments. An operating segment represents a component of the Group that satisfied all of the following criteria: it engages in business activities from which it may earn revenue and incur expenses; whose operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segments and assess its performance; and whose accounting information such as financial position, operating results and cashflow is available to the Company.

The price of intra-segment transactions is determined on market rates. Expenses incurred for more than one segment, other than those which is unable to be allocated reasonably, are allocated among segments on the basis of revenue proportion.

#### 39. Safety production costs

The Group withholds, uses and accounts for safety production costs in accordance with the relevant rules under the Administrative Measures for Withholding and Using Enterprise Work Safety Funds (Cai Qi [2012] No.16) issued by the Ministry of Finance and State Administration of Work Safety on 14 February 2012.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 39. Safety production costs (Continued)

The Group withholds the safety production cost according to the stipulated standards and the withheld safety production cost are included in the current profit or loss, as well as included in special reserves, which is presented separately under the owner's equity. If the withheld safety production cost is part of the expenses, it offsets special reserves directly when being used. If the use of the withheld safety production costs resulted in a fixed asset, through the construction in progress accounted of the expenses incurred, regarded as fixed asset when the safety projects reach the expected condition for use. At the same time, the cost of the formation of fixed assets offsets the special reserves, and confirm the cumulative depreciation as the same amount, the fixed assets shall be depreciated no longer in the subsequent period. If the amount of the special reserve is insufficient to be offset, it shall be directly included in the current profit or loss according to the actual amount.

#### 40. Changes in critical accounting policies and estimates

##### (1) Changes in critical accounting policies

Contents of and reasons for the modification of accounting policies	Approval procedure	Remarks
On 26 January 2021, the Ministry of Finance issued the Accounting Standard for Business Enterprise – Interpretation 14 (Cai Kuai [2021] No. 1), which came into effect from the date of publication. Relevant businesses newly conducted between 1 January 2021 and the effective date of the Interpretation shall be subject to adjustment according to the Interpretation.	The relevant accounting policy changes have been approved by the second meeting of the second session of the Board.	Please see 40.(1).3 for details of the financial statement line items being materially affected and their amounts.

## Notes to the Financial Statements (Continued)

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(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 40. Changes in critical accounting policies and estimates (Continued)

##### (1) Changes in critical accounting policies (Continued)

1) *Adopt the Accounting Standard for Business Enterprise – Interpretation 14 for the first time since 2021 - adjustment made to the financial statements as at the beginning of the year in which it was first adopted*

1. In February 2021, the Ministry of Finance issued the Accounting Standard for Business Enterprise – Interpretation 14 (hereinafter referred to as “Int-14”), which regulates the accounting treatment of Public-Private Partnership (“PPP”) project contracts by private parties. The content in the Accounting Standard for Business Enterprise – Interpretation 2 (CAI Kuai [2008] No. 11) in relation to “V. Treatment on participation in public infrastructure construction business by means of Build-Operate-Transfer (“BOT”) by enterprise” was abolished simultaneously. Int-14 shall come to effect from the date of publication. According to the requirements of Int-14, for the PPP project contracts that have been implemented before 31 December 2020 and have not been completed on the effective date of the Interpretation, it shall be subject to retrospective adjustment if it has not been accounted for in accordance with the requirements of the Interpretation, and the accumulated impact, the retained earnings at the beginning of the year in which the Interpretation was adopted and the amounts of other relevant items in the financial statements shall be adjusted, while no adjustment to the information of comparable periods is required.
2. The accounting treatment provisions regarding PPP projects in Int-14 mainly affect the PPP projects recognised as financial assets by the Group. The Group re-evaluates whether the PPP projects originally recognised as financial assets still meet the recognition conditions of financial assets in accordance with the relevant provisions of Int-14. After evaluation, the projects that do not meet the recognition conditions of financial assets have been adjusted from financial assets to construction in progress or intangible assets according to the project status.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 40. Changes in critical accounting policies and estimates (Continued)

##### (1) Changes in critical accounting policies (Continued)

- 1) *Adopt the Accounting Standard for Business Enterprise – Interpretation 14 for the first time since 2021 - adjustment made to the financial statements as at the beginning of the year in which it was first adopted (Continued)*

3. Major effects on line items are as follows:

Line items and their amounts being materially affected are as follows:

Item	31 December 2020	1 January 2021	Changes
Long-term receivables	195,653,127.47	<b>5,286,385.92</b>	(190,366,741.55)
Intangible assets	978,077,794.79	<b>1,168,444,536.34</b>	190,366,741.55
Undistributed profit	959,029,566.17	<b>936,190,267.77</b>	(22,839,298.40)

- (2) Changes in critical accounting estimates: None.

### 5. TAXATION

Type of taxes	Tax basis	Tax rate
Value-added tax	Turnover tax payable	13%, 9%, 6%, 5%, 3%
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Local education surcharges	Turnover tax payable	2%
Enterprise income tax	Turnover tax payable	5%, 10%, 15%, 20%
Real estate tax	Based on 70% of the original value of fixed assets for own use	1.2%
	Based on rental income for fixed assets leased out	12%

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 5. TAXATION (Continued)

#### 1. The main types and rates of taxes

Notes on taxpayers subject to different enterprise income tax rates:

Name of tax payer	Income tax rate
Luzhou Xinglu Water (Group) Co., Ltd. (hereinafter referred to as "Water Headquarters")	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (hereinafter referred to as "Lu County Branch")	15%
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. (hereinafter referred to as "Naxi Water")	15%
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd. (hereinafter referred to as "Jiangnan Water")	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (hereinafter referred to as "Hejiang Water")	15%
Luzhou Nanjiao Water Co., Ltd. (hereinafter referred to as "Nanjiao Water")	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (hereinafter referred to as "Beijiao Water")	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (hereinafter referred to as "Sitong Engineering")	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (hereinafter referred to as "Xinglu Wastewater")	15%
Luzhou Xinghe Water Governance Co., Ltd. (hereinafter referred to as "Xinghe Water Governance")	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (hereinafter referred to as "Weiyuan Water")	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (hereinafter referred to as "Weiyuan Installation")	15%
Luzhou Fanxing Environmental Development Co., Ltd. (hereinafter referred to as "Fanxing Environmental")	15%
Dechang Xinglu Water Co., Ltd. (hereinafter referred to as "Dechang Water")	15%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (hereinafter referred to as "Qingbaijiang Water")	15%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (hereinafter referred to as "Xingjia Environmental")	20%
Leibo Xinglu Water Co., Ltd. (hereinafter referred to as "Leibo Water")	20%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (hereinafter referred to as "Crystal Trading")	See 2.③④ for details

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 5. TAXATION (Continued)

#### 1. The main types and rates of taxes (Continued)

Notes on taxpayers subject to different enterprise income tax rates: (Continued)

<u>Name of tax payer</u>	<u>Income tax rate</u>
Zhihui Water Science and Technology Co., Ltd. (hereinafter referred to as "Zhihui Technology")	See 2.③④ for details
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (hereinafter referred to as "Sitong Design")	See 2.③④ for details
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (hereinafter referred to as "Xingxu Water")	See 2.③④ for details
Xuyong Yongxing Water Governance Co., Ltd. (hereinafter referred to as "Yongxing Water Governance")	See 2.③④ for details

#### 2. Tax preferences

##### (1) Enterprise income tax

- ① Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23), enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030. Projects including Water Headquarters, Lu County Branch, Naxi Water, Jiangnan Water, Hejiang Water, Nanjiao Water, Beijiao Water, Sitong Engineering, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, Weiyuan Installation, Fanxing Environmental, Dechang Water and Qingbaijiang Water meet the requirements of the Notice of the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region, and being in the encouraged industries as set out in the Catalogue of Industries Encouraged to Develop in the Western Region, they are entitled to enjoy the preferential tax policy under the Implementation of Exploration and Development of Western Region.

# Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 5. TAXATION (Continued)

### 2. Tax preferences (Continued)

#### (1) Enterprise income tax (Continued)

- ② Pursuant to Article 27 of the EIT Law, the income of enterprises engaged in the investment and operation of public infrastructure projects supported by the state and the income derived from environmental protection projects or energy and water saving projects which meet relevant requirements are entitled to the tax preference of exemption and reduction. According to Article 88 of the Regulations for Implementation of Enterprise Income Tax, in respect of environmental protection projects or energy and water saving projects, including public wastewater treatment, public garbage treatment, integrated development and utilization of biogas, energy saving and emission reduction technology transformation and seawater desalination which meet relevant requirements, the income of enterprises engaging in the above environmental protection projects or energy and water saving projects which meet relevant requirements is entitled to be exempted from EIT for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23) by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030. If an enterprise meets the conditions for the 15% preferential tax rate under the Implementation of Exploration and Development of Western Region and also meets the tax preference conditions under the EIT Laws and its implementation regulations and the requirements of the State Council, it is entitled to the tax preferences simultaneously. During the 50% reduction period involving tax relief for a fixed period, the tax payable may be reduced by 50% based on the tax rate applicable to the enterprise.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 5. TAXATION (Continued)

#### 2. Tax preferences (Continued)

##### (1) Enterprise income tax (Continued)

② (Continued)

Name of taxpayer	Tax exemption period	50% tax reduction period
Xinglu Wastewater (Chengdong Wastewater Treatment Plant)	2016-2018	2019-2021
Xinglu Wastewater (Chengnan Wastewater Treatment Plant)	2016-2018	2019-2021
Fanxing Environmental (Gulin project)	2019-2021	2022-2024
Fanxing Environmental (Longmatan, Jiangyang and Naxi projects)	2018-2020	2021-2023

③ Pursuant to the Notice of Ministry of Finance and the State Administration of Taxation on the Implementation of the Inclusive Tax Relief Policy for Small and Low-profit Enterprises (Cai Shui [2019] No. 13), Crystal Trading, Zhihui Technology, Sitong Design, Xingxu Water and Yongxing Water Governance are eligible under the Inclusive Tax Relief Policy for Small and Low-profit Enterprises. For small and low-profit enterprises, the portion of annual taxable income which does not exceed RMB1 million, shall be subject to the enterprise income tax at the tax rate of 5%; for the portion of annual taxable income which exceeds RMB1 million but does not exceed RMB3 million, shall be subject to the enterprise income tax at the tax rate of 10%.

④ Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Implementation of Preferential Income Tax Policies for Small and Low-profit Enterprises and Individual Business (MOF and SAT Notice 2021 No. 12), for small and low-profit enterprises, the portion of annual taxable income which does not exceed RMB1 million, shall be subject to the enterprise income tax at the tax rate of 2.5%, which is further reduced by 50% according to the preferential policies provided in Article 2 of the Notice of Ministry of Finance and the State Administration of Taxation on the Implementation of the Inclusive Tax Relief Policy for Small and Low-profit Enterprises (Cai Shui [2019] No. 13).

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 5. TAXATION (Continued)

#### 2. Tax preferences (Continued)

##### (2) *Value-added-tax*

- A. Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Policy of Low Value-added Tax Rate Applicable to Certain Goods and the Simplified Method of Imposing Value-added Tax (Cai Shui [2009] No. 9), the Group has selected to calculate and pay the value-added tax at a tax rate of 6% under the simplified method for its revenue from the sale of tap water since 1 January 2009. Pursuant to the Notice on the Policy of Simplified Value-added Tax Rate issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2014] No. 57), with effect from 1 July 2014, general taxpayers who sell self-produced tap water may select to calculate and pay value-added tax at a tax rate of 3% under the simplified method.
- B. Pursuant to the provisions of the Notice on Adjustment of Value-added Tax Rate jointly issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2018] No. 32), with effect from 1 May 2018, the tax rates of 17% and 11% originally applicable to taxpayers who engage in taxable sales of value-added tax or import of goods, have been adjusted to 16% and 10%, respectively.
- C. Pursuant to the provisions of the Announcement on the Policy of Deepening Value-added Tax Reform (MOF, SAT and GACC Announcement 2019 No. 39), with effective from 1 April 2019, the tax rates of 16% and 10% originally applicable to general taxpayers of value-added tax (hereinafter referred to as the "Taxpayers") who engage in taxable sales of value-added tax or import of goods, have been adjusted to 13% and 9%, respectively.
- D. Pursuant to the provisions of the Announcement on Clarifying Certain Issues in relation to Imposing and Regulating Value-added Taxes on the Distribution of Used Cars (SAT Announcement 2020 No. 9), with effective from 1 May 2021, the tax rate of 13% originally applicable to the Taxpayers who are entrusted for the professional treatment of waste such as garbage, sludge, sewage and waste gas, which utilizes landfills, incineration, purification, fertilization and other methods to reduce, reuse and disposal of waste in a harmless way, has been adjusted to 6%.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 5. TAXATION (Continued)

#### 2. Tax preferences (Continued)

##### (2) Value-added-tax (Continued)

- E. Pursuant to the relevant provisions of the Notice on the Value-added Tax Policy in relation to Sewage Treatment Fees issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2001] No. 97), the Notice on Strengthening Water Conservation and Water Pollution Prevention in Urban Water Supply issued by the State Council (Guo Fa [2000] No. 36) and the Notice on the Value-added Tax Policy of Comprehensive Utilization of Resources and Other Products issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2008] No. 156), Xinglu Treatment are exempt from value-added tax for the provision of services for Xinglu Treatment before 1 July 2015.
- F. Pursuant to the Notice on the Issuance of the Catalog of Value-added Tax Benefits for Products and Services for Comprehensive Utilization of Resources (Cai Shui [2015] No. 78), with effective from 1 July 2015, the Taxpayers who engage in the sale of self-produced products for comprehensive utilization of resources and provision of services for comprehensive utilization of resources are entitled to the policy of instant refund of value-added tax. Xinglu Treatment which has provided services for sewage treatment since 1 July 2015 are entitled to the policy of instant refund of value-added tax with a tax refund rate of 70%.
- G. Pursuant to the provisions of Article 2 of the Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment and Improvement of Value-added Tax Policies for Products and Services for Comprehensive Utilization of Resources (Cai Shui [2011] No. 115), disposal services for waste treatment and sludge treatment are exempt from value-added tax.
- H. Pursuant to the provisions of the Notice of the Ministry of Finance and the State Administration of Taxation on the Continued Implementation of Preferential Tax Policies for the Construction and Operation of Rural Drinking Water Safety Projects (Cai Shui [2016] No. 19), the Announcement of the Ministry of Finance and the State Administration of Taxation on the Continued Implementation of Preferential Tax Policies for Rural Drinking Water Safety Projects (MOF and SAT Announcement 2019 No. 67) and the Announcement of the Ministry of Finance and the State Administration of Taxation on the Extension of the Implementation Period of Certain Preferential Tax Policies (MOF and SAT Announcement 2021 No. 6), the revenue from the sale of tap water earned by the operation and management units responsible for drinking water projects in respect of the provision of domestic water to rural residents is exempt from value-added tax.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For the following disclosed financial statement data, unless otherwise noted, “Opening Balance” refers to the balance as at 1 January 2021; and “Closing Balance” refers to the balance as at 31 December 2021. “Current Year” refers to the period from 1 January to 31 December 2021; “Last Year” refers to the period from 1 January to 31 December 2020, with the currency denominated in RMB.

#### 1. Cash at bank and on hand

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Cash on hand	7,363.71	5,375.94
Bank deposits	871,734,715.16	1,036,187,229.06
Other cash at bank and on hand	2,500.00	500.00
<b>Total</b>	<b>871,744,578.87</b>	<b>1,036,193,105.00</b>
Including: Total amount deposited overseas	1,394,560.44	1,428,346.08

*Note:* The Group's deposits of RMB21.3407 million under the bank account 15180120000002512 with Luzhou Rural Commercial Bank Co., Ltd. and the deposits of RMB24.0675 under the bank account 20351059900100000423361 with Luzhou Branch of China Agricultural Development Bank were the proceeds obtained from special financing, which were utilized for the project in relation to the water supply to the entire Jiangyang District in Luzhou City.

#### **Restricted cash at bank and on hand**

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
ETC account funds	2,000.00	
Frozen business	500.00	500.00
<b>Total</b>	<b>2,500.00</b>	<b>500.00</b>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 2. Notes receivable

##### (1) Type of notes receivable

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Bank acceptance notes	2,350,000.00	1,950,000.00
Commercial acceptance notes	348,572.00	
<b>Total</b>	<b>2,698,572.00</b>	<b>1,950,000.00</b>

(2) Notes receivable used for pledge as at the end of the year: None.

(3) Notes receivable endorsed or discounted as at the end of the year and outstanding as at the balance sheet date: None.

(4) Notes transferred to accounts receivable as at the end of the year due to non-performance of drawers.: None.

(5) Presentation by method adopted for provision for bad debts: None.

(6) Provision for bad debts made, recovered and reversed in respect of notes receivable during the year: None.

(7) Actual write-off of notes receivable for the year: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3. Accounts receivable

##### (1) Accounts receivable as shown by provision for bad debts

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	%	
Separate provision for bad debts	2,686,835.88	0.51	2,686,835.88	100.00	
Provision for bad debts on a group basis	523,240,518.15	99.49	37,181,919.26	7.11	486,058,598.89
<b>Total</b>	<b>525,927,354.03</b>	<b>100.00</b>	<b>39,868,755.14</b>		<b>486,058,598.89</b>

(Continued)

Category	Book value		Opening balance		Carrying amount
	Amount	%	Amount	%	
Separate provision for bad debts	1,003,762.08	0.27	1,003,762.08	100.00	
Provision for bad debts on a group basis	368,595,765.51	99.73	23,351,702.75	6.34	345,244,062.76
<b>Total</b>	<b>369,599,527.59</b>	<b>100.00</b>	<b>24,355,464.83</b>		<b>345,244,062.76</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3. Accounts receivable (Continued)

##### (1) Accounts receivable as shown by provision for bad debts (Continued)

###### 1) Separate provision for bad debts for accounts receivable

Name	Book value	Closing balance		Reasons for provision
		Provision for bad debts	Provision proportion (%)	
Huaxi Hejunyaocheng Real Estate (Luzhou) Co., Ltd. (華西和駿耀城置業(瀘州)有限公司)	1,683,073.80	1,683,073.80	100.00	Abnormalities in company operations
Sichuan Weiyuan Construction Group Co., Ltd. (四川省威遠建業集團有限公司)	627,668.00	627,668.00	100.00	Unrecoverable
Weiyuan County Sanwei Wine Company (威遠縣三維酒業公司)	178,534.40	178,534.40	100.00	Unrecoverable
Sichuan Chuang Yu Real Estate Development Co., Ltd. (四川創宇房地產開發有限公司)	146,800.00	146,800.00	100.00	Unrecoverable
Others in aggregate	50,759.68	50,759.68	100.00	Unrecoverable
<b>Total</b>	<b>2,686,835.88</b>	<b>2,686,835.88</b>		

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3. Accounts receivable (Continued)

##### (1) Accounts receivable as shown by provision for bad debts (Continued)

2) Among the group, provision for bad debts for accounts receivable

Ageing	Book value	Closing balance	%
		Provision for bad debts	
Within 1 year	416,507,978.13	20,825,398.92	5.00
1 to 2 years	85,591,207.37	8,559,120.74	10.00
2 to 3 years	10,532,002.76	2,106,400.56	20.00
3 to 4 years	9,815,648.96	4,907,824.48	50.00
4 to 5 years	52,531.90	42,025.52	80.00
Over 5 years	741,149.03	741,149.04	100.00
<b>Total</b>	<b>523,240,518.15</b>	<b>37,181,919.26</b>	

(continued)

Ageing	Book value	Opening balance	%
		Provision for bad debts	
Within 1 year	324,137,126.22	16,206,856.30	5.00
1 to 2 years	29,501,781.50	2,950,178.15	10.00
2 to 3 years	12,843,698.26	2,568,739.65	20.00
3 to 4 years	805,254.00	402,627.00	50.00
4 to 5 years	423,019.39	338,415.51	80.00
Over 5 years	884,886.14	884,886.14	100.00
<b>Total</b>	<b>368,595,765.51</b>	<b>23,351,702.75</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3. Accounts receivable (Continued)

##### (2) Accounts receivable presented by ageing as follows

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	418,191,051.93	324,137,126.22
1 to 2 years	85,591,207.37	29,501,781.50
2 to 3 years	10,532,002.76	12,930,098.26
3 to 4 years	9,902,048.96	1,432,922.00
4 to 5 years	680,199.90	484,278.39
Over 5 years	1,030,843.11	1,113,321.22
<b>Total</b>	<b>525,927,354.03</b>	<b>369,599,527.59</b>

##### (3) Provision for bad debts for accounts receivable during the year

Category	Opening balance	Provision	Changes during the year			Closing balance
			Recoveries or reversals	Write-off	Others	
Provision for bad debts	24,355,464.83	15,513,290.31				39,868,755.14

(4) Accounts receivable written-off during the year: None.

##### (5) Top five accounts receivable by closing balance of debtors

The total top five accounts receivable by closing balance of debtors amounted to RMB242,584,655.88, accounting for 46.13% of the closing balance of accounts receivable. A provision for bad debts of RMB14,593,190.15 in total was made as at the end of the year.

(6) Accounts receivable derecognized due to the transfer of financial assets: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4. Prepayments

##### (1) Prepayments presented by ageing

Ageing	Closing balance		Opening balance	
	Amount	%	Amount	%
Within 1 year	10,340,927.57	52.26	10,882,292.94	66.03
1 to 2 years	4,503,367.12	22.76	2,968,426.35	18.01
2 to 3 years	2,547,200.61	12.87	1,686,978.53	10.24
Over 3 years	2,395,633.60	12.11	941,982.45	5.72
<b>Total</b>	<b>19,787,128.90</b>	<b>100.00</b>	<b>16,479,680.27</b>	<b>100.00</b>

##### (2) Top five prepayments by supplier based on closing balance

Name of entity	Closing balance	Ageing	As a percentage of the closing balance of prepayments (%)
State Grid Sichuan Electric Power Company (國網四川省電力公司)	9,911,283.51	Available in all years (rolled over)	50.09
Sichuan Baoye Environmental Engineering Co., Ltd. (四川寶冶環境工程有限公司)	688,500.00	Within 1 year	3.48
Sichuan Bohai Water Supply Equipment Co., Ltd. (四川博海供水設備有限公司)	632,300.00	Within 1 year	3.20
WPG (上海威派格智慧水務股份有限公司)	531,547.20	Within 1 year, 2 to 3 years	2.69
Sichuan Zhongheng Zhiyuan Information Technology Co., Ltd. (四川中恆志遠信息科技有限公司)	519,330.00	Within 1 year	2.62
<b>Total</b>	<b>12,282,960.71</b>		<b>62.08</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5. Other receivables

Item	Closing balance	Opening balance
Interest receivable		
Dividend receivable		
Other receivables	<b>148,145,229.62</b>	52,104,650.27
<b>Total</b>	<b>148,145,229.62</b>	52,104,650.27

**5.1** Interest receivable: None.

**5.2** Dividend receivable: None.

#### **5.3 Other receivables**

Item	Closing balance	Opening balance
Other receivables	<b>154,237,246.09</b>	57,781,950.28
Less: Provision for bad debts	<b>6,092,016.47</b>	5,677,300.01
<b>Total</b>	<b>148,145,229.62</b>	52,104,650.27

(1) *Classification of other receivables by nature of the amount*

Nature of the amount	Book value as at the end of the year	Book value as at the beginning of the year
City and district financial subsidies for the "One Household, One Meter" Transformation Project the urban area of Luzhou City	<b>141,615,032.92</b>	46,869,897.27
Deposits and guarantees	<b>2,610,721.43</b>	1,797,211.22
Withholding payment	<b>2,453,597.37</b>	2,640,938.73
Others	<b>7,557,894.37</b>	6,473,903.06
<b>Total</b>	<b>154,237,246.09</b>	57,781,950.28

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5. Other receivables (Continued)

##### 5.3 Other receivables (Continued)

(2) Provision for bad debts for other receivables

	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss in the lifetime (without credit impairment)	Third stage Expected credit loss in the lifetime (with credit impairment)	Total
Balance as at 1 January 2021	5,677,300.01			5,677,300.01
During the year, the balance of other receivables as at 1 January 2021				
- transferred to second stage				
- transferred to third stage				
- reversed to second stage				
- reversed to first stage				
Provision for the year	414,716.46			414,716.46
Reversal for the year				
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 31 December 2021	6,092,016.47			6,092,016.47



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5. Other receivables (Continued)

##### 5.3 Other receivables (Continued)

(3) Other receivables presented by ageing as follows

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	99,338,481.92	51,183,548.14
1 to 2 years	48,522,499.65	491,171.14
2 to 3 years	460,677.41	636,557.86
Over 3 years	5,915,587.11	5,470,673.14
Of which: 3 to 4 years	564,558.17	192,356.10
4 to 5 years	192,356.00	100,468.78
Over 5 years	5,158,672.94	5,177,848.26
<b>Total</b>	<b>154,237,246.09</b>	<b>57,781,950.28</b>

(4) Provision for bad debts for other receivables

Category	Opening balance	Provision	Changes during the year			Closing balance
			Recoveries or reversals	Write-off	Others	
Provision for bad debts	5,677,300.01	414,716.46				6,092,016.47

(5) Other receivables written-off during the year: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5. Other receivables (Continued)

##### 5.3 Other receivables (Continued)

(6) Top five other receivables by debtor as at the end of the year

Name of entity	Nature of the amount	Closing balance	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Finance Bureau of Luzhou City	Grants	141,615,032.92	Within 1 year, 1 to 2 years	91.82	
Housing Provident Fund Management Center of Luzhou City	House maintenance fund	2,023,645.27	Over 5 years	1.31	2,023,645.27
Hejiang County Housing and Development Bureau of Hejiang County	Advance payment	797,998.00	1 to 2 years, 3 to 4 years	0.52	266,667.80
Office of Leading Group of Construction Project of Sichuan Xiangjiaba Irrigation District	Working expenses	704,400.00	3 to 4 years, 4 to 5 years, over 5 years	0.46	640,900.00
Luzhou Electricity Supply Company of State Grid Sichuan Electric Power Company (國網四川省電力公司瀘州供電公司)	Deposits and guarantees	700,400.00	Over 5 years	0.45	700,400.00
<b>Total</b>		<b>145,841,476.19</b>		<b>94.56</b>	<b>3,631,613.07</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 5. Other receivables (Continued)

##### 5.3 Other receivables (Continued)

(7) Accounts receivable involving government grants

Name of entity	Grants	Closing balance	Ageing	Time	Estimated collection	
					Amount	Reference
Finance Bureau of Luzhou City	"One Household, One Meter" Transformation Project in the urban area of Luzhou City	141,615,032.92	Within 2 years	Pending completion of settlement of the construction costs	141,615,032.92	Document Lu Shi Fu Fa (2019) No.14

#### 6. Inventories

##### (1) Classification of inventories

Item	Closing balance			Opening balance		
	Book value	Provision for declines in value/Provision for impairment of contract performance costs	Carrying amount	Book value	Provision for declines in value/Provision for impairment of contract performance costs	Carrying amount
Raw materials	37,945,495.87		37,945,495.87	34,488,648.46		34,488,648.46
Low value consumables	1,320,027.88		1,320,027.88	1,226,275.18		1,226,275.18
Finished goods	460,637.26	3,087.75	457,549.51	665,971.06	3,087.75	662,883.31
Turnaround materials	1,470.00		1,470.00	1,470.00		1,470.00
Contract performance costs	14,001,096.55		14,001,096.55	52,959,512.19		52,959,512.19
<b>Total</b>	<b>53,728,727.56</b>	<b>3,087.75</b>	<b>53,725,639.81</b>	<b>89,341,876.89</b>	<b>3,087.75</b>	<b>89,338,789.14</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 6. Inventories (Continued)

##### (2) Provision for declines in value of inventories and provision for impairment of contract performance costs

Item	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Provision for the year	Others	Recovered or written-off	Others	
Finished goods	3,087.75					3,087.75

#### 7. Other current assets

Item	Closing balance	Opening balance
Input tax to be deducted	52,150,930.62	34,909,609.78
Prepayments of enterprise income tax	22,231,666.99	24,097,900.48
Prepayments of other taxes and fees	39,205.08	70,050.45
<b>Total</b>	<b>74,421,802.69</b>	<b>59,077,560.71</b>

#### 8. Long-term receivables

##### (1) Particulars of long-term receivables

Item	Closing balance			Opening balance			Discount rate range
	Book balance	Provision for bad debts	Book value	Book balance	Provision for bad debts	Book value	
Finance lease payments	5,593,899.76		5,593,899.76	5,286,385.92		5,286,385.92	
Including: Unrealized finance income	606,100.25		606,100.25	913,614.08		913,614.08	
Rural sewage treatment projects							
<b>Total</b>	<b>5,593,899.76</b>		<b>5,593,899.76</b>	<b>5,286,385.92</b>		<b>5,286,385.92</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 8. Long-term receivables (Continued)

- (2) Provision for bad debts: None.
- (3) Long-term receivables derecognized due to the transfer of financial assets: None.
- (4) Transfer of long-term receivables and continued addition of amount of assets and liabilities formed: None.

#### 9. Long-term equity investments

Investee	Opening balance (Book value)	Increase in investment	Decrease in investment	Gains or losses from investment recognised using equity method	Change for the year				Closing balance (Book value)	Closing balance of provision for impairment
					Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit	Provision for impairment made		
<b>I. Joint ventures</b>										
Sichuan Xiangjiaba Irrigation District Construction and Development Company Limited (四川省向家壩灌區建設開發有限公司)	54,602,212.65						673,396.83	55,275,609.48		

*Note:* Sichuan Xiangjiaba Irrigation District Construction and Development Company Limited (四川省向家壩灌區建設開發有限公司) (hereinafter referred to as "Xiangjiaba Irrigation District Construction and Development Company") established on 22 September 2013 and its shareholders consist of Sichuan Water Resources Development Group Company Limited (四川省水利發展集團有限公司), Yibin Qingyuan Water Group Company Limited (宜賓市清源水務集團有限公司), Zigong Fuxi Water Investment and Development Company Limited (自貢釜溪水務投資開發有限公司), Neijiang Investment Holding Group Company Limited (內江投資控股集團有限公司) and the Company. According to the articles of association of Xiangjiaba Irrigation District Construction and Development Company, the board of directors comprises seven directors, one of whom is employee director. Sichuan Water Resources Development Group Company Limited has appointed two directors and each of the Company and the other three capital contributors has appointed one director. Any resolution of the board of directors shall be subject to the approval by more than half of all directors. The Company accounts for such investment under the equity method.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 10. Investments in other equity instruments

##### (1) Particulars of investments in other equity instruments

Item	Closing balance	Opening balance
Luzhou Traffic Investment Group Co., Ltd. (瀘州市交通投資集團有限責任公司)		1,832,475.87
Sichuan Tianhua Co., Ltd. (四川天華股份有限公司)	<u>21,252.07</u>	<u>21,252.07</u>
<b>Total</b>	<u><u>21,252.07</u></u>	<u><u>1,853,727.94</u></u>

##### (2) Investments in equity instruments not for trading for the year

Item	Dividend income recognized for the year	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reason for designated as at FVTOCI	Reason for transfer from other comprehensive income to retained earnings
Luzhou Traffic Investment Group Co., Ltd. (瀘州市交 通投資集團有限責任公司)				108,376.96		Investment transfer
Sichuan Tianhua Co., Ltd. (四川天華股份有限公司)			78,747.93			
<b>Total</b>			<u><u>78,747.93</u></u>	<u><u>108,376.96</u></u>		

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 11. Investment properties

##### (1) Investment properties adopting the cost measurement model

Item	Buildings and structures	Land use rights	Total
I. Original carrying amount			
1. Opening balance	5,533,862.88		5,533,862.88
2. Increase for the year			
(1) External acquisition			
(2) Transfer to fixed assets			
(3) Increase in business combinations			
(4) Internal transfer			
(5) Shareholders' investments and injections by the State			
3. Decrease for the year			
(1) Disposal			
(2) Transfer from fixed assets			
(3) Transfer from others			
4. Closing balance	5,533,862.88		5,533,862.88
II. Accumulated depreciation and accumulated amortisation			
1. Opening balance	2,252,865.52		2,252,865.52
2. Increase for the year	138,159.10		138,159.10
(1) Provision or amortization	138,159.10		138,159.10
(2) Transfer to fixed assets			
(3) Increase in business combinations			
(4) Internal transfer			
(5) Shareholders' investments and injections by the State			
3. Decrease for the year			
(1) Disposal			
(2) Transfer from fixed assets			
(3) Transfer from others			
4. Closing balance	2,391,024.62		2,391,024.62
III. Provision for impairment			
1. Opening balance			
2. Increase for the year			
(1) Provision			
3. Decrease for the year			
(1) Disposal			
(2) Transfer from others			
4. Closing balance			
IV. Carrying amount			
1. Carrying amount as at the end of the year	3,142,838.26		3,142,838.26
2. Carrying amount as at the beginning of the year	3,280,997.36		3,280,997.36

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 11. Investment properties (Continued)

##### (2) Investment properties without ownership certificates

Item	Carrying amount	Reason for failure to obtain ownership certificates
Facade of old street	1,318,842.00	In-kind capital contribution has been made by Jinshajiang State-owned Assets Company, while the ownership has not yet been transferred

#### 12. Fixed assets

Item	Closing balance	Opening balance
Fixed assets	<b>3,324,795,903.21</b>	2,718,554,716.77
Disposal of fixed assets	<b>44,532.74</b>	297.76
<b>Total</b>	<b><u>3,324,840,435.95</u></b>	<b><u>2,718,555,014.53</u></b>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12.1 Fixed assets

##### (1) Particulars of fixed assets

Item	Office equipment	Building structures	Pipe networks	General equipment	Transportation equipment	Special equipment	Total
I. Original carrying amount							
1. Opening balance	11,072,971.62	1,477,069,766.48	1,144,929,753.10	82,429,981.18	18,098,868.30	884,909,555.33	3,618,510,896.01
2. Increase for the year	831,408.63	332,311,441.33	301,722,047.74	1,903,573.06	485,105.31	205,045,353.52	842,298,929.59
(1) Acquisition	831,408.63	444,633.12	3,302,315.85	1,903,573.06	485,105.31	19,542,346.83	26,509,382.80
(2) Transfer to construction in progress		331,866,808.21	298,419,731.89			185,503,006.69	815,789,546.79
(3) Adjustment to original provisional asset value							
(4) Internal transfer							
(5) Adjustment to category of fixed assets							
(6) External transfer							
(7) Increase in business combinations							
(8) Adjustment to presentation of properties held for investment							
3. Decrease for the year	34,920.00	3,185,399.59	495,047.00	1,713,665.05	924,232.11	1,176,209.81	7,529,473.56
(1) Disposal or retirement	34,920.00	3,185,399.59	495,047.00	1,713,665.05	924,232.11	1,176,209.81	7,529,473.56
(2) Internal transfer							
(3) Adjustment to category of fixed assets							
(4) Adjustment to presentation of properties held for investment							
(5) Others							
4. Closing balance	11,869,460.25	1,806,195,808.22	1,446,156,753.84	82,619,889.19	17,659,741.50	1,088,778,699.04	4,453,280,352.04

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12.1 Fixed assets (Continued)

##### (1) Particulars of fixed assets (Continued)

Item	Office equipment	Building structures	Pipe networks	General equipment	Transportation equipment	Special equipment	Total
II. Accumulated depreciation							
1. Opening balance	7,944,733.75	203,746,414.13	321,518,264.74	43,383,649.96	13,427,689.36	305,121,205.92	895,141,947.86
2. Increase for the year	899,887.43	48,843,226.26	62,849,515.30	9,018,362.49	1,427,298.80	98,662,086.28	221,700,376.56
(1) Provision	899,887.43	48,843,226.26	62,849,515.30	9,018,362.49	1,427,298.80	98,662,086.28	221,700,376.56
(2) Adjustment to category of fixed assets							
(3) Adjustment to presentation of properties held for investment							
(4) Increase in business combinations							
(5) Internal transfer							
3. Decrease for the year	33,346.79	1,775,762.68	63,363.26	1,568,539.57	887,262.93	1,059,301.78	5,387,577.01
(1) Disposal or retirement	33,346.79	1,775,762.68	63,363.26	1,568,539.57	887,262.93	1,059,301.78	5,387,577.01
(2) Adjustment to category of fixed assets							
(3) Adjustment to presentation of properties held for investment							
(4) Internal transfer							
4. Closing balance	8,811,274.39	250,813,877.71	384,304,406.78	50,833,472.88	13,967,725.23	402,723,990.42	1,111,454,747.41

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12.1 Fixed assets (Continued)

##### (1) Particulars of fixed assets (Continued)

Item	Office equipment	Building structures	Pipe networks	General equipment	Transportation equipment	Special equipment	Total
III. Provision for impairment							
1. Opening balance		3,419,466.18				1,394,765.20	4,814,231.38
2. Increase for the year		8,043,294.53				4,172,175.51	12,215,470.04
(1) Provision		8,043,294.53				4,172,175.51	12,215,470.04
(2) Adjustment to category of fixed assets							
(3) Adjustment to presentation of properties held for investment							
3. Decrease for the year							
(1) Disposal or retirement							
(2) Adjustment to category of fixed assets							
(3) Adjustment to presentation of properties held for investment							
4. Closing balance		11,462,760.71				5,566,940.71	17,029,701.42
IV. Carrying amount							
1. Carrying amount as at the end of the year	3,058,185.86	1,543,919,169.80	1,061,852,347.06	31,786,416.31	3,692,016.27	680,487,767.91	3,324,795,903.21
2. Carrying amount as at the beginning of the year	3,128,237.87	1,269,903,886.17	823,411,498.36	39,046,331.22	4,671,178.94	578,393,584.21	2,718,554,716.77

##### (2) Temporarily idle fixed assets

Item	Original book value	Accumulative depreciation	Provision for impairment	Book value	Remarks
Building and structures	15,006,939.14	11,310,347.50	3,419,466.18	277,125.46	
Pipe networks	195,874.73	28,205.82		167,668.91	
General equipment	71,856.00	48,676.06		23,179.94	
Special equipment	7,315,348.94	4,829,762.26	1,394,765.20	1,090,821.48	
<b>Total</b>	<b>22,590,018.81</b>	<b>16,216,991.64</b>	<b>4,814,231.38</b>	<b>1,558,795.79</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12.1 Fixed assets (Continued)

##### (3) *The rent out fixed asset under operating lease*

Item	Closing book value
Buildings and structures	532,412.45

##### (4) *Fixed asset which has not obtained the ownership certificate*

Item	Book value*	Reason for failure to obtain ownership certificates
Naxi Water Plant Project (Phase I)	265,156,345.94	Undergoing the application process
Xicao Second Water Plant Project (Phase I)	168,453,082.57	Not yet fulfilled the conditions for application
Nanjiao Second Water Plant Project (Phase I)	120,651,662.52	Undergoing the application process
Nanjiao Second Water Plant Project (Phase II)	49,357,359.67	Undergoing the application process
Beijiao Second Water Plant Project (Phase I)	47,985,216.36	Not yet fulfilled the conditions for application
<b>Total</b>	<b>651,603,667.06</b>	

Note\*: The Group states these water plant assets at the carrying amount of the building structures at the end of the period.

##### (5) As of the end of the year, details of the Group's fixed assets for pledge or mortgage are disclosed in Note VI.55.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12.2 Disposal of fixed assets

Item	Closing balance	Opening balance
Disposal and clearance of vehicles	488.24	297.76
Disposal of equipment	44,044.50	
<b>Total</b>	44,532.74	297.76

#### 13. Construction in progress

##### (1) Breakdown of constructions in progress

Item	Book balance	Closing balance Impairment provision	Book value
Water Plant Technological Improvement Project	156,728,633.12		156,728,633.12
Water Supply Pipe Network Project	100,791,096.75	121,745.09	100,669,351.66
New Wastewater Treatment Plant Project	52,388,831.25		52,388,831.25
New Water Treatment Plant Project	1,007,671.30		1,007,671.30
Wastewater Treatment Project “One Household, One Meter” Transformation Project	84,718.55		84,718.55
Other projects	7,125,189.23		7,125,189.23
<b>Total</b>	318,126,140.20	121,745.09	318,004,395.11

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 13. Construction in progress (Continued)

##### (1) Breakdown of constructions in progress (Continued)

(continued)

Item	Book balance	Opening balance Impairment provision	Book value
Water Plant Technological Improvement Project	40,196,786.28		40,196,786.28
Water Supply Pipe Network Project	299,173,687.08	121,745.09	299,051,941.99
New Wastewater Treatment Plant Project	130,247,565.20		130,247,565.20
New Water Treatment Plant Project	348,785,861.58		348,785,861.58
Wastewater Treatment Project “One Household, One Meter” Transformation Project	67,677,142.35		67,677,142.35
Other projects	4,533,790.39		4,533,790.39
<b>Total</b>	924,189,235.88	121,745.09	924,067,490.79

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 13. Construction in progress (Continued)

##### (2) Movements in key constructions in progress during the year

Name of construction	Opening balance	Increase for the year	Decrease for the year		Closing balance
			Transferred to fixed assets	Other decrease	
Chengdong Project (Phase II)	8,285,731.85	53,362,706.13			61,648,437.98
Naxi Wastewater Treatment Plant	15,272,662.28	38,647,628.30			53,920,290.58
Dechang County Industrial Concentration Area Sewage Treatment Plant and its Supporting Pipeline Network (Phase I) Construction Project	39,231,529.39	13,157,301.86			52,388,831.25
Zhangwan Wastewater Treatment Plant	1,130,437.11	26,471,979.27			27,602,416.38
Xicao-Wine Industrial Park Water Supply Project (Gaoke Road Section)	30,877,266.37	21,304.80			30,898,571.17
New Hedong Pump Station	6,252,750.00	3,862,009.00			10,114,759.00
Xuyong Project (Phase II)	10,585,532.60	18,829,914.94	26,887,158.59		2,528,288.95
Qingbaijiang European Industrial Urban Area	90,931,477.50	51,942,922.50		142,874,400.00	
Huangxi Water Plant	336,791,970.78	705,611.16	336,307,828.80	1,189,753.14	
Beijiao Second Water Plant Project (Phase I)	162,645,675.53	203,213,724.47	365,859,400.00		
Township Wastewater Treatment Project	61,248,294.53	53,702,909.54		114,951,204.07	
Tap Water Household Meter Transformation Project in Major Urban Area of Luzhou City (Phase I)	33,574,403.00	124,334,156.41		157,908,559.41	
<b>Total</b>	<b>796,827,730.94</b>	<b>588,252,168.38</b>	<b>729,054,387.39</b>	<b>416,923,916.62</b>	<b>239,101,595.31</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 13. Construction in progress (Continued)

##### (2) Movements in key constructions in progress during the year (Continued)

(continued)

Name of construction	Budget	Accumulative contribution in budget (%)	Progress	Accumulated amount of capitalized interest	Including:		Sources of funds
					Amount of capitalized interest for the year	Interest capitalization rate for the year (%)	
Chengdong Project (Phase II)	952,301,100.00	6.47	Construction in progress	5,716,400.00	4,662,400.00	3.72	Self-financing + loans
Naxi Wastewater Treatment Plant	190,000,000.00	28.38	Construction in progress	1,828,408.32	1,233,208.32	3.72	Self-financing + loans
Dechang County Industrial Concentration Area Sewage Treatment Plant and its Supporting Pipeline Network (Phase I) Construction Project	66,699,400.00	78.54	Construction in progress	1,793,734.97	1,678,276.19	5.32	Self-financing + loans
Zhangwan Wastewater Treatment Plant	150,000,000.00	18.40	Construction in progress	29,444.44	29,444.44	5.30	Self-financing + loans
Xicao-Wine Industrial Park Water Supply Project (Gaoke Road Section)	37,012,877.57	83.48	Construction in progress				Self-financing
New Hedong Pump Station	26,149,173.00	38.68	Construction in progress				Self-financing
Xuyong Project (Phase II)	72,641,100.00	40.49	Partially completed	1,291,093.31	356,994.45	5.39	Self-financing + loans
Qingbaijiang European Industrial Urban Area	173,557,100.00	82.32	Completed	3,249,426.50	2,166,714.78	4.90	Self-financing + loans
Huangxi Water Plant	410,622,600.00	82.19	Completed	14,303,214.82	5,120,500.00	5.39	Self-financing + loans
Beijiao Second Water Plant Project (Phase II)	457,317,100.00	87.47	Completed	1,564,425.56	1,564,425.56	4.00	Self-financing + loans
Township Wastewater Treatment Project	346,686,299.64	88.97	Completed				Government funding + self-financing
Tap Water Household Meter Transformation Project in Major Urban Area of Luzhou City (Phase I)	216,028,129.98	73.10	Completed				Government funding + self-financing
<b>Total</b>	<b>3,099,014,880.19</b>			<b>29,776,147.92</b>	<b>16,811,963.74</b>		

Note: Other decrease for the period was mainly due to the transfer of the Qingbaijiang European Industrial Urban Area Project and the Township Wastewater Treatment Project, which were BOT projects, to intangible assets upon completion of construction and commencement of operation, and the transfer of the Tap Water Household Meter Transformation Project in Major Urban Area of Luzhou City (Phase I) to long-term deferred expenses.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14. Right of use assets

Item	Buildings and structures	Land use rights	Total
I. Original carrying amount			
1. Opening balance	2,296,332.02		2,296,332.02
2. Increase for the year		1,503,936.94	1,503,936.94
(1) Rental		1,503,936.94	1,503,936.94
3. Decrease for the year			
(1) Disposal			
4. Closing balance	2,296,332.02	1,503,936.94	3,800,268.96
II. Accumulated depreciation			
1. Opening balance	1,188,145.88		1,188,145.88
2. Increase for the year	740,916.05	150,393.70	891,309.75
(1) Provision	740,916.05	150,393.70	891,309.75
3. Decrease for the year			
(1) Disposal			
4. Closing balance	1,929,061.93	150,393.70	2,079,455.63
III. Provision for impairment			
1. Opening balance			
2. Increase for the year			
(1) Provision			
3. Decrease for the year			
(1) Disposal			
4. Closing balance			
IV. Carrying amount			
1. Carrying amount as at the end of the year	367,270.09	1,353,543.24	1,720,813.33
2. Carrying amount as at the beginning of the year	1,108,186.14		1,108,186.14

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15. Intangible assets

##### (1) Particulars of intangible assets

Item	Land use rights	Franchising	Non-patented technology	Total
I. Original carrying amount				
1. Opening balance	486,572,861.48	848,798,523.00	13,336,727.65	1,348,708,112.13
2. Increase for the year	17,744,831.67	263,128,794.66	2,534,824.53	283,408,450.86
(1) Acquisition	17,744,831.67		1,345,071.39	19,089,903.06
(2) Transfer from completed BOT projects upon commencement of commercial operation		263,128,794.66		263,128,794.66
(3) Transfer to construction in progress			1,189,753.14	1,189,753.14
3. Decrease for the year			72,680.00	72,680.00
(1) Disposal			72,680.00	72,680.00
4. Closing balance	504,317,693.15	1,111,927,317.66	15,798,872.18	1,632,043,882.99
II. Accumulated amortisation				
1. Opening balance	54,236,570.33	120,546,128.21	5,480,877.25	180,263,575.79
2. Increase for the year	13,130,005.82	49,417,665.88	1,428,187.82	63,975,859.52
(1) Provision	13,130,005.82	49,417,665.88	1,428,187.82	63,975,859.52
3. Decrease for the year			71,541.46	71,541.46
(1) Disposal			71,541.46	71,541.46
4. Closing balance	67,366,576.15	169,963,794.09	6,837,523.61	244,167,893.85
III. Provision for impairment				
1. Opening balance				
2. Increase for the year				
(1) Provision				
3. Decrease for the year				
(1) Disposal				
4. Closing balance				
IV. Carrying amount				
1. Carrying amount as at the end of the year	436,951,117.00	941,963,523.57	8,961,348.57	1,387,875,989.14
2. Carrying amount as at the beginning of the year	432,336,291.15	728,252,394.79	7,855,850.40	1,168,444,536.34

The proportion of intangible assets arising from internal research and development to the balance of intangible assets of the Group at the end of the period was 0.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15. Intangible assets (Continued)

##### (2) Franchising presented under intangible assets as of the end of the year

Project company	Name of project	Original value	Net value
Water Headquarters	Franchising for the water supply to the entire Jiangyang District in Luzhou City	417,903,000.00	375,761,521.02
Fanxing Environmental	Franchising wastewater treatment projects in township and rural area of Gulan County, Jiangyang District, Longmatan District and Naxi District in Luzhou City	308,437,354.60	285,658,347.58
Weiyuan Water	Weiyuan County Liangfeng Water Plant	242,712,563.06	140,050,494.97
Qingbaijiang Water	European Industrial District Wastewater Treatment Plant (Phase I)	142,874,400.00	140,493,160.00
<b>Total</b>		<b>1,111,927,317.66</b>	<b>941,963,523.57</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15. Intangible assets (Continued)

##### (3) Land use rights which certificates of ownership are pending

Project company	Name of asset	Carrying amount	Reason for not completing certificate of ownership
Xinglu Wastewater	Gulan Wastewater Plant (Phase II)	3,491,676.02	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Huangjuebao Water Plant	549,994.97	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Haiwan Water Plant	526,550.31	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Nantian Water Storage Tank	120,623.00	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Water Tank in Beimen Water Supply Plant	250,116.48	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Shikala Water Plant	173,011.20	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Huanglang Water Plant	125,931.72	Pending going through the application process in accordance with procedures upon receipt of government approval
Leibo Water	Qinglong Street Dormitory	547,251.36	Pending going through the application process in accordance with procedures upon receipt of government approval
<b>Total</b>		<b>5,785,155.06</b>	

(4) As of the end of the year, details of the Group's intangible assets for pledge or mortgage are disclosed in Note VI.55.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16. Goodwill

##### (1) *The original value of goodwill*

Name of investee	Opening balance	Increase for the year		Decrease for the year		Closing balance
		Formation of business combinations	Other increases	Disposal	Other decrease	
Weiyuan Installation	10,446,361.39					10,446,361.39
Weiyuan Water	9,757,041.51					9,757,041.51
Fanxing Environmental	5,444,527.86					5,444,527.86
Hejiang Water	1,915,122.71					1,915,122.71
Naxi Water	576,119.60					576,119.60
<b>Total</b>	<b>28,139,173.07</b>					<b>28,139,173.07</b>

(2) Impairment provision for goodwill: None.

(3) Relevant information on the asset group which the goodwill belongs to or group of assets : The Group recognizes the asset group or group of assets which the goodwill belongs to based on whether the primary cash inflows from the asset group which the goodwill belongs to are independent of the cash inflows from other assets or asset groups, and taking into account the manner in which the management of the Company manages its production and operation activities and the manner in which it makes decisions about the ongoing use or disposal of assets, etc., and the asset group or group of assets which are able to benefit from the synergies of the business combinations.

##### (4) *Process and parameters of goodwill impairment test and method adopted for the recognition of goodwill impairment loss*

The Group adopts the discounted cash flow method to measure the recoverable amount of the underlying assets of asset groups.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 17. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other decrease for the year	Closing balance
Tap Water Household Meter Transformation Project in Major Urban Area of Luzhou City (Phase I)	76,444,522.73	157,908,559.41	17,034,848.38		217,318,233.76
Household Meter Transformation Project in Old Urban Area	12,520,106.83		1,120,361.88		11,399,744.95
Others in aggregate	10,406,666.68	2,091,308.40	3,093,389.16		9,404,585.92
<b>Total</b>	<b>99,371,296.24</b>	<b>159,999,867.81</b>	<b>21,248,599.42</b>		<b>238,122,564.63</b>

#### 18. Deferred tax assets and deferred tax liabilities

##### (1) Undeducted deferred tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for bad debts	45,960,771.61	6,801,767.00	30,032,764.84	4,632,760.46
Provision for impairment of assets	3,087.75	77.19	3,087.75	154.39
Deductible losses				
Changes in fair value of investments in other equity instruments	78,747.93	11,812.19		
<b>Total</b>	<b>46,042,607.29</b>	<b>6,813,656.38</b>	<b>30,035,852.59</b>	<b>4,632,914.85</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 18. Deferred tax assets and deferred tax liabilities (Continued)

##### (2) Undeducted deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Adjustment to the carrying value of the fair value of consolidation under non-same control	39,452,975.00	5,917,946.25	41,671,371.80	6,250,705.77
Changes in fair value of investments in other equity instruments			753,727.93	113,059.19
<b>Total</b>	<b>39,452,975.00</b>	<b>5,917,946.25</b>	<b>42,425,099.73</b>	<b>6,363,764.96</b>

(3) Deferred income tax assets or liabilities stated at net amount after offsetting: None.

##### (4) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible tax loss	460,198.37	391,071.95

##### (5) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

Year	Closing balance	Opening balance	Remark
2021			
2022			
2023			
2024			
2025	2,378,163.67	3,012,988.11	
2026	689,825.46		
<b>Total</b>	<b>3,067,989.13</b>	<b>3,012,988.11</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 19. Other non-current assets

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Prepaid construction and equipment costs	23,984,749.47		23,984,749.47	16,106,585.60		16,106,585.60
Hejiang Zhangwan Project	23,199,335.65		23,199,335.65	23,199,335.65		23,199,335.65
Prepaid land premiums				19,500,000.00		19,500,000.00
<b>Total</b>	<b>47,184,085.12</b>		<b>47,184,085.12</b>	<b>58,805,921.25</b>		<b>58,805,921.25</b>

*Note 1:* Prepaid construction and equipment costs represent the upfront investment costs paid by Xingjia Environmental in respect of the Leshan City Shizhong District Wastewater PPP Project. On 28 October 2021, the Housing and Urban-Rural Development Bureau of Shizhong District of Leshan City released the Document Le Zhong Zhu Jian [2021] No.126 as agreed under Clause (1) of Article 13.6.1 and Article 16.4.3 to the Contract of the Leshan City Shizhong District Wastewater Treatment and Wastewater Pipeline Network Construction PPP Project entered into among the Company, China Construction First Bureau (Group) Co., Ltd. (中國建築一局(集團)有限公司) and the Housing and Urban-Rural Development Bureau of Shizhong District of Leshan City, to notify the Company that the Leshan City Shizhong District Wastewater Treatment Facility and Wastewater Pipeline Network Construction Project has been terminated due to force majeure. At present, the project has been suspended. The Company and the Housing and Urban-Rural Development Bureau of Shizhong District of Leshan City have not yet settled the project. Accordingly, the Company presents the relevant assets under other non-current assets.

*Note 2:* The Company intends to use the assets of the Hejiang Zhangwan Project for an in-kind contribution to increase its capital in Xinghe Water Governance. At present, the capital injection to Xinghe Water Governance has not been completed. Accordingly, the relevant asset is presented under other non-current assets.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 20. Short-term borrowings

##### (1) Categories of short-term borrowings

Categories of borrowings	Closing balance	Opening balance
Pledged borrowings		
Secured borrowings		
Guaranteed borrowings		60,000,000.00
Credit borrowings	239,000,000.00	191,000,000.00
Interest payable on borrowings	282,822.21	1,856,821.52
<b>Total</b>	<b>239,282,822.21</b>	<b>252,856,821.52</b>

Note: The Group's borrowing rates for the above borrowings at the end of the year ranged from 3.1% to 3.9% per annum (3.1% to 4.5675% at the beginning of the year).

(2) Outstanding short-borrowing due as at the end of the year: None.

#### 21. Accounts payable

##### (1) Presentation of accounts payable

Item	Closing balance	Opening balance
Construction costs	496,846,750.70	617,267,881.28
Material and equipment costs	38,469,512.10	31,388,456.75
Others	4,520,525.08	3,220,442.19
<b>Total</b>	<b>539,836,787.88</b>	<b>651,876,780.22</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 21. Accounts payable (Continued)

##### (2) Accounts payable presented by ageing

Ageing	Closing balance	Opening balance
Within 1 year (inclusive)	<b>327,982,283.81</b>	396,334,295.16
1 to 2 years	<b>38,682,173.95</b>	182,385,191.96
2 to 3 years	<b>127,030,455.09</b>	47,716,261.18
3 to 4 years	<b>21,754,232.81</b>	19,266,491.47
4 to 5 years	<b>19,003,782.51</b>	3,492,327.60
Over 5 years	<b>5,383,859.71</b>	2,682,212.85
<b>Total</b>	<b>539,836,787.88</b>	651,876,780.22

##### (3) Significant accounts payable aged over 1 year

Name of entity	Closing balance	Reason for unsettlement or carrying forward
China Chemical Engineering Seventh Construction Company Limited (中國化學工程第七建設有限公司)	<b>99,084,059.20</b>	Unsettled project payment
China Seven Construction Group Hua Hua Trading Co., Ltd. (中七建工集團華貿有限公司)	<b>86,040,183.27</b>	Unsettled project payment
Sichuan Huayuan Construction Engineering Co., Ltd. (四川華遠建設工程有限公司)	<b>60,000,000.00</b>	Unsettled project payment
Unified Land Collection and Reserve Centre of Lu County	<b>11,207,019.00</b>	Unsettled project payment
Longsheng International Jianwai Group Co., Ltd. (隆生國際建外集團有限公司)	<b>10,222,232.30</b>	Unsettled project payment
Hongfeng Group (Fujian) Co., Ltd. (宏峰集團(福建)有限公司)	<b>8,176,743.00</b>	Unsettled project payment
Zhongsheng Jiuda Construction Engineering Group Co., Ltd. (中晟玖大建築工程集團有限公司)	<b>3,946,838.52</b>	Unsettled project payment
<b>Total</b>	<b>278,677,075.29</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22. Contract liability

##### (1) Particulars of contract liability

Item	Closing balance	Opening balance
Water supply project	75,704,309.39	54,085,470.12
Engineering construction project	118,324,544.15	203,865,650.79
<b>Total</b>	<b>194,028,853.54</b>	<b>257,951,120.91</b>

#### 23. Compensations payable to employee

##### (1) Categories of compensations payable to employee

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Short-term compensations	39,512,749.53	166,482,372.73	159,359,554.15	46,635,568.11
Post-employment benefits – defined contribution plans	697,649.83	16,658,715.44	16,660,552.40	695,812.87
Termination benefits				
Other benefits due within 1 year				
<b>Total</b>	<b>40,210,399.36</b>	<b>183,141,088.17</b>	<b>176,020,106.55</b>	<b>47,331,380.98</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 23. Compensations payable to employee (Continued)

##### (2) Short-term compensations

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Wages and salaries, bonuses, allowances and subsidies	38,373,017.72	135,019,472.63	128,120,291.78	45,272,198.57
Staff welfare		7,390,059.47	7,390,059.47	
Social insurance	27,758.23	8,433,196.73	8,433,714.73	27,240.23
Including: Medical insurance	26,804.91	7,803,016.66	7,803,534.66	26,286.91
Work-related injury insurance	416.95	397,492.28	397,492.28	416.95
Maternity insurance	536.37	232,687.79	232,687.79	536.37
Other insurances				
Housing provident funds	63,846.92	12,090,063.28	12,033,990.28	119,919.92
Labour union funds and employee education funds	1,048,126.66	3,549,580.62	3,381,497.89	1,216,209.39
Short-term paid absence				
Short-term profit sharing scheme				
<b>Total</b>	<b>39,512,749.53</b>	<b>166,482,372.73</b>	<b>159,359,554.15</b>	<b>46,635,568.11</b>

##### (3) Defined contribution plans

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Basic pension insurance	665,181.51	16,055,874.54	16,057,645.10	663,410.95
Unemployment insurance	32,468.32	602,840.90	602,907.30	32,401.92
Corporate pension payment				
<b>Total</b>	<b>697,649.83</b>	<b>16,658,715.44</b>	<b>16,660,552.40</b>	<b>695,812.87</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 24. Taxes payable

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Enterprise income tax	12,196,170.68	18,252,137.67
Value-added tax	8,675,770.78	2,538,554.17
Water resource tax	4,513,247.13	4,362,936.46
City maintenance and construction tax	477,491.63	280,626.25
Educational surcharges	217,949.69	129,770.14
Local educational surcharges	148,859.55	86,968.34
Individual income tax	100,919.09	358,429.42
Residual benefits	74,300.00	
Stamp tax	453,463.70	523,595.40
Real estate tax		7,714.29
<b>Total</b>	<b>26,855,172.25</b>	<b>26,540,732.14</b>

#### 25. Other payables

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Interest payable		
Dividend payable		
Other payables	179,435,483.30	170,369,763.59
<b>Total</b>	<b>179,435,483.30</b>	<b>170,369,763.59</b>

**25.1** Interest payable: None.

**25.2** Dividend payable: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 25. Other payables (Continued)

##### 25.3 Other payables

(1) Other payables by nature

Item	Closing balance	Opening balance
Deposit and margin	99,191,344.11	44,079,526.36
Amounts paid from or to governmental institutions	35,710,496.83	28,451,796.02
Amounts collected or paid on behalf of others	25,491,514.84	28,342,097.85
Consideration for land acquisition	5,419,634.05	5,419,634.05
Borrowings	2,050,000.00	49,612,538.17
Withholding payment	1,298,816.70	1,048,369.45
Others	10,273,676.77	13,415,801.69
<b>Total</b>	<b>179,435,483.30</b>	<b>170,369,763.59</b>

(2) Significant other payables with ageing of over 1 year

Name	Closing balance	Reason for unsettlement or carrying forward
Water Resources Bureau of Weiyuan County	11,562,525.85	Not yet settled
Finance Bureau of Hejiang County	11,008,152.18	Collection of funds from the government earmarked for special projects
<b>Total</b>	<b>22,570,678.03</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 26. Non-current liabilities due within one year

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Long-term borrowings due within one year	156,695,993.85	140,082,190.10
Bonds payable due within one year	721,468,263.50	23,253,424.67
Long-term payables due within one year	40,753,553.21	78,057,831.68
Lease liabilities due within one year	352,549.40	726,268.48
Special government bonds due within one year	8,114,460.90	8,018,378.16
<b>Total</b>	<b>927,384,820.86</b>	<b>250,138,093.09</b>

#### 27. Other current liabilities

##### (1) Classification of other current liabilities

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Output value-added tax to be recognised	1,968,400.84	1,486,585.49

#### 28. Long-term borrowings

##### (1) Classification of long-term borrowings

<u>Types of borrowings</u>	<u>Closing balance</u>	<u>Opening balance</u>
Pledged borrowings	351,030,626.16	208,534,771.67
Secured borrowings		
Guaranteed borrowings	959,625,738.58	739,058,637.00
Credit borrowings	80,000,000.00	90,000,000.00
<b>Total</b>	<b>1,390,656,364.74</b>	<b>1,037,593,408.67</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 28. Long-term borrowings (Continued)

##### (1) Classification of long-term borrowings (Continued)

Item	Closing balance	Opening balance
Within 1 year	154,925,502.76	137,584,878.00
1 year after balance sheet date, but no more than 2 years	161,004,377.76	128,425,038.84
2 years after balance sheet date, but no more than 5 years	450,633,128.28	370,215,609.40
5 years after balance sheet date	779,018,858.70	538,952,760.43
Less: Borrowings due within 1 year presented in current liabilities	154,925,502.76	137,584,878.00
<b>Net long-term borrowings</b>	<b>1,390,656,364.74</b>	<b>1,037,593,408.67</b>

Note 1: The interest rate range for the Group's long-term borrowings at the end of the year was 1.2% to 5.88% (1.2% to 5.782% at the beginning of the year).

Note 2: For details of the Group's mortgage and pledge borrowings at the end of the year, please refer to Note VI. 55.

#### 29. Bonds payable

##### (1) Classification of bonds payable

Item	Closing balance	Opening balance
19 Lu Water 01		498,298,889.11
19 Lu Water 02		199,247,913.02
<b>Total</b>		<b>697,546,802.13</b>

The principal amount of the above borrowings is repayable as follows



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 29. Bonds payable (Continued)

##### (2) Changes in bonds payable (excluding financial instruments such as preference shares and perpetual bonds classified as financial liabilities)

Name of bonds	Par value	Date of issue	Term of bonds	Issue size	Opening balance	Issue size for the year	Provision for interest at par value	Amortisation of premium or discount	Repayment for the year	Non-current liabilities due within one year	Closing balance
19 Lu Water 01	500,000,000.00	2019.4.26	5 years	500,000,000.00	498,298,889.11		29,950,000.00	464,827.14		498,763,716.25	
19 Lu Water 02	200,000,000.00	2019.9.23	5 years	200,000,000.00	199,247,913.02		10,000,000.00	182,294.08		199,430,207.10	
<b>Total</b>	<b>700,000,000.00</b>			<b>700,000,000.00</b>	<b>697,546,802.13</b>		<b>39,950,000.00</b>	<b>647,121.22</b>		<b>698,193,923.35</b>	

Note 1: On 26 April 2019, the Company issued Bond 19 Lu Water 01 in the amount of RMB500 million at a coupon rate of 5.99% for a term of 5 years, with an option for the issuer to adjust the coupon rate and an option for the investor to sell back at the end of the third year. The Company plans to reduce the coupon rate at the end of the third year of the life of the 19 Lu Water 01 bonds at its option.

Note 2: On 23 September 2019, the Company issued Bond 19 Lu Water 02 in the amount of RMB200 million at a coupon rate of 5% for a term of 5 years, with an option for the issuer to adjust the coupon rate and an option for the investor to sell back at the end of the third year. The Company plans to reduce the coupon rate at the end of the third year of the life of the 19 Lu Water 02 bonds at its option.

#### 30. Lease liabilities

Item	Closing balance	Opening balance
Operating lease	<b>1,297,709.43</b>	260,944.37

#### 31. Long-term payables

Item	Closing balance	Opening balance
Long-term payables	<b>554,776,456.47</b>	595,530,009.66
Special payables	<b>30,515,558.09</b>	30,515,558.09
<b>Total</b>	<b>585,292,014.56</b>	626,045,567.75

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
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### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 31.1 Long-term payables

##### (1) Classification of long-term payables by nature of amount

Nature of amount	Closing balance	Opening balance
Payments for finance leases under sale and leaseback	63,073,867.32	146,961,342.61
Special government bonds	535,000,000.00	535,000,000.00
Borrowings from the Finance Department	500,000.00	500,000.00
Less: unrecognized finance costs	3,043,857.64	8,873,501.27
Including: Payments for finance leases under sale and leaseback	3,043,857.64	8,873,501.27
Less: Non-current liabilities classified as due within one year	40,753,553.21	78,057,831.68
Including: Payments for finance leases under sale and leaseback	40,753,553.21	78,057,831.68
<b>Total</b>	<b>554,776,456.47</b>	<b>595,530,009.66</b>

##### (2) Special payables

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reason for occurrence
Grants from the Ecological Environment Bureau of Luzhou City	343,648.36			343,648.36	Nature of the funds is not yet clear
Finance Bureau of Luzhou City	30,171,909.73			30,171,909.73	
<b>Total</b>	<b>30,515,558.09</b>			<b>30,515,558.09</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 32. Provisions

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>	<u>Reason for occurrence</u>
Expenditure on renewal of wastewater treatment facilities and tap water production facilities	<u>4,451,887.98</u>	<u>2,327,410.47</u>	<i>Note 1</i>

*Note 1:* Expenditure on the subsequent major repairment, renewal and transformation of projects such as the BOT project represents the expenditure expected to be incurred under the franchise agreement for maintaining the relevant infrastructure in a certain state of use prior to its transfer to the contract grantor. Based on the expected future cash expenditure on the renewal of equipment during the franchise period, the Group chooses an appropriate discount rate to calculate the present value of its cash flows and recognizes the estimated liability on a period-by-period basis.

#### 33. Deferred income

##### (1) Classification of deferred Income

<u>Item</u>	<u>Opening balance</u>	<u>Increase for the year</u>	<u>Decrease for the year</u>	<u>Closing balance</u>
Government grants	<u>188,646,318.47</u>	<u>105,346,786.14</u>	<u>25,437,636.50</u>	<u>268,555,468.11</u>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33. Deferred income (Continued)

##### (2) Government grants

Government grants	Opening balance	New grants received during the year	Amount included in non-operating income during the year	Amount included in other income during the year	Amount of current year elimination of costs and expenses	Other changes	Closing balance	Related to assets/revenue	Remarks
Grants for the "One Household, One Meter" Transformation Project in major urban area of Luzhou City (Phase I)	45,866,713.56	94,745,135.65		10,220,909.02			130,390,940.19	Related to assets	Note 1
Government grants for upgrading and expanding the capacity of Yaerdang	32,939,573.24			3,883,040.04			29,056,533.20	Related to assets	Note 2
Grants for the construction of Erdaoxi Wastewater Treatment Plant	24,682,627.90			2,524,519.99			22,158,107.91	Related to assets	Note 3
Grants for the construction of Erdaoxi Project (Phase III)	21,922,000.00			1,290,063.24			20,631,936.76	Related to assets	Note 4
Grants for external pipeline networks of Yaerdang Wastewater Treatment Plant	14,909,657.50			1,376,276.04			13,533,381.46	Related to assets	Note 5
Grants for the construction of Erdaoxi Project (Phase II)	13,979,088.59			1,850,370.72			12,128,717.87	Related to assets	Note 6
Grants from the central government for the construction of Naxi Project (Phase III)		10,000,000.00					10,000,000.00	Related to assets	Note 7
Grants for internal technological transformation of Yaerdang Wastewater Treatment Plant	11,220,602.73			1,925,122.19			9,295,480.54	Related to assets	Note 8
Construction costs of transformation of pipeline networks of urban water supply	8,907,883.22	601,650.49		1,310,045.14			8,199,488.57	Related to assets	Note 9
Compensation for the demolition, relocation and redevelopment of Shawan Water Tank	5,476,530.68			391,180.76			5,085,349.92	Related to assets	Note 10
Grants for the construction of water supply facilities in poor counties and counties with severe water shortage	4,400,000.00			400,000.00			4,000,000.00	Related to assets	Note 11
Grants for land premiums of Xicao Water Plant	2,975,000.00			175,000.00			2,800,000.00	Related to assets	Note 12
Compensation for the occupation and relocation of certain water supply assets in the Zhangwan Industrial Park	1,366,641.05			91,109.36			1,275,531.69	Related to assets	Note 13
<b>Total</b>	<b>188,646,318.47</b>	<b>105,346,786.14</b>		<b>25,437,636.50</b>			<b>268,555,468.11</b>		

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33. Deferred income (Continued)

##### (2) Government grants (Continued)

*Note 1:* According to the Notice of the Office of the People's Government of Luzhou City on the Issuance of the Implementation Plan for the Transformation of Household Meters for Tap Water Supply in Major Urban Area of Luzhou City (Lu Shi Fu Ban Fa [2019] No. 14) and the Approval from the Development and Reform Commission of Luzhou City for the Feasibility Study Report of the Transformation Project of Household Meters for Tap Water Supply in Major Urban Area of Luzhou City (Lu Shi Fa Gai Xing Shen [2020] No. 59), in order to improve the standard of water supply management in the urban area of Luzhou City, the Company has implemented the "One Household, One Meter" Transformation Project for approximately 20,800 households in urban area in five years from 2019 onwards, with 40% of the transformation cost borne by the Company and 60% of the transformation cost subsidized by the urban financial grants;

*Note 2:* According to the Notice of the Development and Reform Commission of Luzhou City on the Transfer of the 2017 Central Budgetary Investment Plan for the Prevention and Control of Water Pollution in Key River Basins (Lu Shi Fa Gai Kui Hua [2017] No. 195), Xinglu Wastewater successively received grants of RMB42 million from the Finance Bureau of Luzhou City for upgrading and expanding the capacity of Yaerdang during the period from 2017 to 2018, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 3:* According to the Notice of the Housing and Urban-Rural Planning and Construction Bureau of Luzhou City on the Issuance of the 2012 Budget of Special Funds for Supporting Pipeline Network of Urban Wastewater Treatment Facilities (Lu Shi Cai Zong [2012] No. 115), the Notice of the Development and Reform Commission of Sichuan Province on the Transfer of 2009 New Central Budgetary Investment Plan for Urban Wastewater and Garbage Treatment Facility Projects (Chuan Fa Gai Tou Zi [2009] No. 180), and the Notice of the Finance Bureau of Luzhou City on the Issuance of the 2009 Budget (Funding) for the Construction of Urban Wastewater and Garbage Treatment Facilities with Expanded Domestic Needs for State Bond Investment (Chuan Shi Cai Tou [2009] No. 54), and the Notice of the Finance Bureau of Luzhou City on the Issuance of the 2010 Central Budgetary Infrastructure Expenditure and Budget (Funding) for Urban Wastewater and Garbage Treatment Facilities (Batch I) (Chuan Shi Cai Tou [2010] No. 34), Xinglu Wastewater successively received grants of RMB48.62 million from the Finance Bureau of Luzhou City for the construction of Erdaoxi Wastewater Treatment Plant during the period from 2009 to 2012, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 4:* According to the Notice of the Finance Department of Sichuan Province on the Issuance of the 2018 Budget of Special Funds for Projects under the Three-Year Promotion Plan for the Construction of Urban Wastewater and Township Garbage Treatment Facilities (Chuan Cai Tou [2018] No. 6), the Notice of the Finance Bureau of Luzhou City on the Issuance of the 2018 Provincial Budget of Special Funds for Projects under the Three-Year Promotion Plan for the Construction of Urban Wastewater and Township Garbage Treatment Facilities (Lu Shi Cai Zong [2018] No. 28), and the Notice of the Finance Department of Sichuan Province on the Issuance of the 2020 Budget of the Second Batch of Provincial Special Funds for Township Construction and Development (Chuan Cai Jian [2020] No. 191), Xinglu Wastewater successively received grants of RMB22.21 million from the Urban Management and Administrative Laws Enforcement Bureau of Luzhou City for the construction of Erdaoxi Wastewater Treatment Project (Phase III) during the period from 2018 to 2020, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33. Deferred income (Continued)

##### (2) Government grants (Continued)

*Note 5:* According to the Notice of the Finance Bureau of Luzhou City on the Issuance of the Grant of Special Funds for the Technological Transformation Project for External Sewage Interception Pipelines of Yaerdang Wastewater Treatment Plant issued by the Finance Bureau of Luzhou City in 2010, Xinglu Wastewater received the special grant of RMB2,752.55 from the Finance Bureau of Luzhou City for the technological transformation project for external sewage interception pipelines of Yaerdang Wastewater Treatment Plant in July 2011, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 6:* According to the Notice on the Issuance of the 2013 Central Infrastructure Investment Budget (Funding) for the Project of Prevention and Control of Water Pollution in Key River Basins issued by the Finance Bureau of Luzhou City (Lu Shi Cai Tou [2013] No. 76), Xinglu Wastewater successively received grants of RMB22.80 million from the Finance Bureau of Luzhou City for the construction of Erdaoxi Wastewater Treatment Plant (Phase II) and the Supporting Pipeline Network during the period from 2014 to 2016, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 7:* According to the Notice on the Issuance of the 2021 Budget of the Second Batch of Provincial Special Funds for Township Construction and Development issued by the Finance Department of Sichuan Province and the Housing and Urban-Rural Construction Department of Sichuan Province (Chuan Cai Jian [2021] No. 92), the Request for Instructions on Allocating the 2021 Budget of the Second Batch of Provincial Special Funds for Township Construction and Development issued by the Finance Bureau of Luzhou City, the Housing and Urban-Rural Construction Bureau of Luzhou City and the Urban Management and Administrative Laws Enforcement Bureau of Luzhou City (Lu Shi Cai [2021] No. 112), and the approval for the request from the leaders of the municipal government of Luzhou City, Xinglu Wastewater received the grant of RMB10 million from the Urban Management and Administrative Laws Enforcement Bureau of Luzhou City for the construction of Naxi Wastewater Treatment Plant (Phase III) on 19 November 2021, which has not yet been amortized as the construction of Naxi Wastewater Treatment Plant (Phase III) has not yet been completed.

*Note 8:* According to the Minutes of the Meeting for Considering the Issues Regarding the Rectification and Construction of Sewage Interception Pipelines of Jiangyang Wastewater Treatment Company Within A Time Limit and the Construction of Erdaoxi Wastewater Treatment Plant issued by the Finance Bureau of Luzhou City (Lu Shi Fu Yue [2008] No. 23), Xinglu Wastewater successively received the grants of RMB30.2177 million from the Finance Bureau of Luzhou City for the internal technological transformation of Yaerdang Wastewater Treatment Plant during the period from 2012 to 2013, and Xinglu Wastewater has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 9:* According to the Approval from the Development and Reform Commission of Sichuan Province for the Feasibility Study Report of the Transformation Project of Urban Water Supply Pipelines in Luzhou City (Chuan Fa Gai Tou Zi [2012] No. 1251), the Company successively received the grants of RMB6.8 million from the Finance Bureau of Luzhou City for the transformation project of urban water supply pipelines in Luzhou City during the period from 2015 to 2016; Lu County Branch successively received the grants of RMB7.5038 million from the Finance Bureau of Luzhou City according to the pipeline transformation agreement entered into with the People's Government of Lu County during the period from 2014 to 2021; and the Company and Lu County Branch have amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33. Deferred income (Continued)

##### (2) Government grants (Continued)

*Note 10:* Due to the needs for municipal planning of Luzhou City, the houses and land and water supply pipelines of Jiangnan Water in Shaxipian area of Jiangyang District were relocated during the period from 2013 to 2014. According to the Agreement of Monetary Compensation for Urban Housing Demolition and Relocation entered into between Jiangnan Water and the Command Department for the Land Collection and Demolition and Relocation of the Shaxipian Area of Jiangyang District of Luzhou City on 22 February 2013, the Tap Water Pipeline Relocation Agreement entered into between Jiangnan Water and the Unified Land Collection and Consolidation Center of Luzhou City on 8 March 2013, the Tap Water Pipeline Route Relocation Agreement entered into between Jiangnan Water and the Unified Land Collection and Consolidation Center of Luzhou City on 25 July 2013, and the Asset Evaluation Report issued by Sichuan Xinhe Assets Appraisal Co., Ltd. (四川信合資產評估有限責任公司) on 22 February 2014 (Chuan Xin Zi Ping Bao Zi [2013] No. 6002), Jiangnan Water successively received the compensation for relocation of RMB13.8261 million during the period from 2013 to 2014. Jiangnan Water has transferred the grants to deferred income and the government grants to other income over the estimated useful life of the assets;

*Note 11:* According to the Notice on the Issuance of the 2009 Budget (Funding) of Central Budgetary Infrastructure Expenditure for the Construction of Water Supply Facilities in Poor Counties and Counties with Severe Water Shortage with Expanded Domestic Needs issued by the Finance Bureau of Luzhou City on 16 June 2009 (Lu Shi Cai Tou [2009] No. 50), the Company successively received the special grants of RMB8 million from the Finance Bureau of Luzhou City for the construction of water supply facilities in poor counties and counties with severe water shortage, and the Company has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 12:* Xinglu Water received the grants of RMB3.5000 million for land premiums of Xicao Second Water Plant from Luzhou City Xinglu Investment Group Co., Ltd. in June 2014 and Xinglu Water has amortized the government grants over the estimated useful life of the assets of the project and transferred such grants to other income;

*Note 13:* According to the Agreement on Relocation of Pipelines for the Construction of the Park Avenue Project entered into between Hejiang Water and Unified Land Collection Service Office of Hejiang County, the pipelines at the avenue of the park in Hejiang will be relocated due to needs for municipal construction, and Hejiang Water received the compensation for the relocation of RMB2.78 million from the Finance Bureau of Hejiang County in December 2015. Hejiang Water has transferred the grants to deferred income and the government grants to other income over the estimated useful life of the assets.

#### 34. Share capital

Categories of shares	Opening balance	Issue of new shares	Change for the year (+,-)			Subtotal	Closing balance
			Bonus issue	Conversion from reserve	Others		
Total number of shares	859,710,000.00						859,710,000.00

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 35. Capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	417,232,548.23	942,199.08		418,174,747.31
Other capital reserve	2,272,467.04			2,272,467.04
<b>Total</b>	<b>419,505,015.27</b>	<b>942,199.08</b>		<b>420,447,214.35</b>

*Note:* The increase in capital reserve for the year was attributable to the completion of absorption and combination of Jiangnan Water and Naxi Water by the Company in 2021.

#### 36. Other comprehensive income

Item	Opening balance	Amount before income tax for the year	previous period profit or loss in current period	Amount incurred in the year		Less: income tax expense	Attributable to parent after tax	Attributable to minority interest after tax	Closing balance
				Less: Amount included in other comprehensive income in previous period and transferred in retained earnings in current period	Less: Included in other comprehensive income in the previous period and transferred in retained earnings in current period				
I. Other comprehensive income that cannot be subsequently reclassified into profit or loss									
Including: Changes in re-measurement of defined benefit plans									
Other comprehensive income that cannot be transferred to profit or loss under equity method									
Changes in fair value of investments in other equity instruments	640,668.75	(724,098.91)		108,376.96	(124,871.38)	(707,604.49)			(66,935.74)
Changes in fair value of the enterprise's own credit risk									
Others									
II. Other comprehensive income that will be subsequently reclassified into profit or loss									
<b>Total other comprehensive income</b>	<b>640,668.75</b>	<b>(724,098.91)</b>		<b>108,376.96</b>	<b>(124,871.38)</b>	<b>(707,604.49)</b>			<b>(66,935.74)</b>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 37. Special reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Safety production fee	16,675,700.11	7,705,569.42	7,370,703.16	17,010,566.37

*Note:* Pursuant to the requirements of the Guarantee and Management System for Safety and Environmental Protection Contribution of the Company, the safety and environmental protection expenses are provided based on the Company's actual sales revenue in the previous month, withdrawn at a rate of 1.5% on a monthly basis, included in production costs, deposited in a dedicated account and adjusted for tax purposes in accordance with the relevant requirements of tax laws. The remaining balance of production safety costs for the year will be carried forward to the next year. If the safety and environmental protection expenses provided for the current year are insufficient, the excess can be expensed under the normal cost and expense method, with effective from 1 October 2015.

#### 38. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	52,237,041.32	11,033,457.18		63,270,498.50
Discretionary surplus reserve	148,392.19			148,392.19
Other*		10,837.70		10,837.70
<b>Total</b>	<b>52,385,433.51</b>	<b>11,044,294.88</b>		<b>63,429,728.39</b>

*\*Note:* During the year, the Company disposed of its shareholding in Luzhou Transportation Investment Group Co. The accumulated gain of RMB108,376.96 previously included in other comprehensive income was transferred to retained earnings, of which 10% of the accumulated gain was included in the surplus.

## Notes to the Financial Statements (Continued)

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### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 39. Undistributed profits

Item	Amount for the year	Amount for previous year
<b>Balance at the end of the previous year</b>	<b>959,029,566.17</b>	776,377,637.52
Add: Adjustment of undistributed profits as at the beginning of the year	<b>-22,839,298.40</b>	
Of which: retrospective adjustments to the new requirements of ASBEs	<b>-22,839,298.40</b>	
Changes in accounting policies		
Correction of significant prior errors		
Change in scope of common control consolidation		
Other adjustment factors		
<b>Balance at the beginning of the year</b>	<b>936,190,267.77</b>	776,377,637.52
Add: Net profits attributable to the owners of the parent in current year	<b>241,926,358.08</b>	247,221,418.74
Transfer from other comprehensive income*	<b>97,539.26</b>	
Less: Appropriation of statutory surplus reserve	<b>11,033,457.18</b>	12,986,890.09
Appropriation of discretionary surplus reserve		
Appropriation of general risk provision		
Dividends payable on ordinary shares **	<b>51,582,600.00</b>	51,582,600.00
Dividends on ordinary shares transferred to share capital		
Others		
<b>Balance at the end of the year</b>	<b>1,115,598,107.93</b>	959,029,566.17

\*Note: During the year, the Company disposed of its shareholding in Luzhou Transportation Investment Group Co. The accumulated gain of RMB108,376.96 previously included in other comprehensive income was transferred to retained earnings, of which 90% of the accumulated gain was included in unappropriated profit.

\*\*Note: The profit distribution plan of 2020 was considered and approved at the 2020 annual general meeting convened on 11 June 2021, pursuant to which a cash dividend of RMB0.06 (tax inclusive) per share was distributed to all shareholder in July and August 2021, and the total cash dividend distributed amounted to RMB51,582,600.00 (tax inclusive) calculated based on the total number of share capital, being 859,710,000.00 shares.

# Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

## 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40. Operating revenue and costs

#### (1) Particulars operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Costs	Revenue	Costs
Principal operations	1,324,085,641.18	776,102,703.68	1,169,630,311.27	664,262,142.94
Other operations	46,012,292.64	25,401,468.75	35,848,603.10	12,466,131.30
<b>Total</b>	<b>1,370,097,933.82</b>	<b>801,504,172.43</b>	<b>1,205,478,914.37</b>	<b>676,728,274.24</b>

#### (2) Principal operation revenue generated from contracts

Categories of contract	Amount for the year
Categories of product:	
Including: Water supply business	385,810,568.33
Wastewater Treatment business	469,256,500.74
Engineering business	469,018,572.11
Others	46,012,292.64
By operating regions:	
Including: Within Sichuan Province	1,370,097,933.82
Outside Sichuan Province	
<b>Total</b>	<b>1,370,097,933.82</b>

#### (3) Information relating to performance obligations

##### A. Water supply business

For water supply business, water metering is conducted on a monthly basis and water charges are settled on a monthly basis.

For pipeline and household meter installation business, revenue is recognized upon completion of construction and acceptance inspection; and payment is received in advance or upon acceptance inspection pursuant to the contracts.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 40. Operating revenue and costs (Continued)

##### (3) Information relating to performance obligations (Continued)

##### B. Wastewater treatment business

For wastewater treatment business, revenue is recognized based on the agreed unit price for treatment and the treatment volume confirmed by both parties for settlement. Wastewater treatment charges are collected from the government on a monthly or quarterly basis.

#### 41. Tax and surcharges

Item	Amount for the year	Amount for previous year
Water resource tax	14,721,094.76	14,559,544.12
City maintenance and construction tax	2,440,415.27	2,379,828.07
Educational surcharges	1,139,305.21	1,114,602.11
Local educational surcharges	759,641.35	743,443.27
Real estate tax	3,427,361.47	5,156,004.98
Land use tax	6,364,326.48	6,374,868.37
Land value-added tax		520,639.48
Stamp tax	782,495.29	499,122.61
Vehicle tax	56,858.61	373,194.34
Others	305,449.37	67,122.19
<b>Total</b>	<b>29,996,947.81</b>	<b>31,788,369.54</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42. Sales expenses

Item	Amount for the year	Amount for previous year
Employee compensation	20,806,206.85	14,106,211.54
Depreciation expense	523,659.53	522,678.10
Amortization expense	125,370.56	94,876.08
Office fees	1,893,475.41	1,796,685.43
Traveling expenses	27,488.50	10,242.50
Business entertainment expenses	105,004.00	37,781.00
Others	1,596,555.14	886,033.82
<b>Total</b>	<b>25,077,759.99</b>	<b>17,454,508.47</b>

#### 43. Management expenses

Item	Amount for the year	Amount for previous year
Employee compensation	75,302,747.21	60,439,431.89
Business entertainment expenses	1,389,156.65	795,171.06
Traveling expenses	750,939.19	691,715.75
Office fees	3,647,727.79	3,686,669.39
Publicity expenses	743,576.93	747,619.18
Depreciation expense	3,660,399.66	2,526,293.23
Amortization expense	735,600.25	1,048,055.91
Intermediary organs fees	6,258,982.35	5,830,505.12
Others	9,126,148.39	7,135,323.20
<b>Total</b>	<b>101,615,278.42</b>	<b>82,900,784.73</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 44. Financial expenses

<b>Item</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Interest expenses	<b>127,363,911.77</b>	111,548,456.40
Less: Interest incomes	<b>9,786,316.49</b>	7,631,847.79
Add: Exchange loss	<b>226,350.98</b>	-60,467.15
Add: Income expenses of lease liabilities	<b>116,179.24</b>	74,444.97
Add: Other expenses	<b>2,064,418.13</b>	2,658,014.45
<b>Total</b>	<b>119,984,543.63</b>	106,588,600.88

#### 45. Other income

<b>Sources arising other income</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Immediate refund of value-added tax	<b>4,772,241.84</b>	5,931,385.28
Government grants transferred from deferred income	<b>25,437,636.50</b>	15,075,171.54
Others government subsidies related to general activities	<b>4,298,996.44</b>	1,244,995.37
<b>Total</b>	<b>34,508,874.78</b>	22,251,552.19

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45. Other income (Continued)

Breakdown of government grants:

Item	Amount for the year	Amount for previous year	Sources and references	Related to assets/related to revenue
Total direct credit	9,071,238.28	7,176,380.65		
Including				
VAT refunds	4,772,241.84	5,931,385.28		Related to revenue
Fiscal and financial interaction bonus funds	3,415,800.00		Note 1	Related to revenue
Subsidy for job stability	143,354.25	632,867.40		Related to revenue
Other sporadic grants	739,842.19	612,127.97		Related to revenue
Transfer of deferred income	25,437,636.50	15,075,171.54		
Including:				
Jiangnan Shawan Land Compensation	391,180.76	391,180.76		Related to assets
Subsidy for the renovation project of water supply meters in the main city of Luzhou (Phase I)	10,220,909.02	1,003,183.71		Related to assets
Subsidy for the construction of water supply facilities in poor counties and counties with severe water shortage	400,000.00	400,000.00		Related to assets
Land compensation for Xicao No. 2 Water Treatment Plant	175,000.00	175,000.00		Related to assets
Subsidy for Urban Water Supply Network Project	1,310,045.14	959,082.37		Related to assets
Erdao Creek Phase III Project Construction Funding Grant	1,290,063.24	288,000.00		Related to assets
Subsidy for the external pipeline network of the Ap'er cesspool sewage treatment plant	1,376,276.04	1,376,276.04		Related to assets
Subsidy for the technical improvement of the sewage treatment plant in Ap'er cesspool	1,925,122.19	2,056,921.92		Related to assets
Government subsidy for upgrading and expanding the capacity of Ap'er cesspool	3,883,040.04	3,883,040.04		Related to assets
Erdao Creek Wastewater Treatment Plant Construction Funding Grant	2,524,519.99	2,583,553.32		Related to assets
Erdao Creek Phase II Project Construction Funding Grant	1,850,370.72	1,867,824.02		Related to assets
Compensation for relocation of water distribution pipes in Zhangwan Industrial Park	91,109.36	91,109.36		Related to assets
<b>Total</b>	<b>34,508,874.78</b>	<b>22,251,552.19</b>		

Note 1: Pursuant to the Notice of the Provincial Department of Finance, Chengdu Branch of the People's Bank of China, the Military-Civilian Integration Office of the Provincial Party Committee, the Provincial Development and Reform Commission, the Provincial Department of Economy and Information Technology, the Department of Science and Technology, the Provincial Intellectual Property Rights Service and Promotion Centre, the Provincial Local Financial Supervision Bureau, the Sichuan Banking and Insurance Commission and the Sichuan Securities Regulatory Bureau (Chuan Cai Gui [2019] No. 5), the Company received a grant of RMB3,415,800 from the Finance Bureau of Luzhou City in December 2021.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 46. Investment gain

Item	Amount for the year	Amount for previous year
Gain on long-term equity investments accounted for using equity method	673,396.83	719,536.09
Gain on investment on disposal of long-term equity investments		
Gain on investment on held available-for-sale financial assets		
Gain on investment on disposal of available-for-sale financial assets		
Dividend income from holding other equity instruments investments		
Gain arising on remeasurement of remaining equity interest to fair value after loss of control		
Interest income from debt investment in period of holding		
Interest income from other debt investment in the period of holding		
Gain on investment on disposal of other debt investment		
Gain on debt restructuring		
<b>Total</b>	<b>673,396.83</b>	719,536.09

#### 47. Impairment loss on credit

Item	Amount for the year	Amount for previous year
Loss of bad debts of Accounts receivable	(15,411,118.67)	(5,828,004.31)
Loss of bad debts of other receivables	(1,258,623.88)	1,539,612.51
<b>Total</b>	<b>(16,669,742.55)</b>	(4,288,391.80)



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48. Impairment losses on assets

Item	Amount for the year	Amount for previous year
Decline in value of inventories		
Impairment loss on fixed assets	<u>(12,215,470.04)</u>	<u>(4,814,231.38)</u>
<b>Total</b>	<b><u><u>(12,215,470.04)</u></u></b>	<b><u><u>(4,814,231.38)</u></u></b>

#### 49. Gains on disposal of assets

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gains on disposal of disposal group held for sale			
Gains on disposal of non-current assets		9,743.84	
Including: Gains on disposal of non-current assets which are classified as held for sale			
Including: Gains on disposal of fixed assets			
Gains on disposal of intangible assets			
Gains on disposal of non-current assets which are not classified as held for sale		9,743.84	
Including: Gains on disposal of fixed assets		9,743.84	
Gains on disposal of intangible assets			
Gain on exchange of non-monetary assets			
Gain on disposal of non-current assets in debt restructuring			
<b>Total</b>		<b><u><u>9,743.84</u></u></b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 50. Non-operating income

##### (1) Non-operating income

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gain from scrapping of non-current assets	1,309,758.56	401,888.70	1,309,758.56
Government grants	202,929.50		202,929.50
Profit from trading	10,148.78		10,148.78
Penalty income	75,848.00	518,366.33	75,848.00
Default compensation income	3,990,066.26	3,093,832.45	3,990,066.26
Others	3,838,367.61	584,720.24	3,838,367.61
<b>Total</b>	<b>9,427,118.71</b>	4,598,807.72	9,427,118.71

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 50. Non-operating income (Continued)

##### (2) Breakdown of government grants:

Item	Amount for the year	Amount for previous year	Sources and references	Related to assets/related to revenue
Subsidy for vocational training for enterprise workers	<u>202,929.50</u>	<u>                    </u>	Luzhou Employment Service Administration	Related to revenue

#### 51. Non-operating expenses

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Loss on scrapping of non-current assets	<b>21,453.68</b>	162,313.65	21,453.68
Public donation expenses	<b>12,004.60</b>	232,787.38	12,004.60
Fines and other compensation expenses	<b>191.33</b>	459,376.00	191.33
Late payment	<b>86,707.65</b>	3,097,373.97	86,707.65
Others	<b>201,000.68</b>	84,749.65	201,000.68
<b>Total</b>	<b><u>321,357.94</u></b>	<u>4,036,600.65</u>	<u>321,357.94</u>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 53. Cash flows statement

##### (1) Other cash receipt/paid related to operating/investing/financing activities

###### 1) Other cash receipt related to operating activities

Item	Amount for the year	Amount for previous year
Collateral	33,297,444.25	20,091,313.01
Government grants received, etc.	19,875,818.27	14,386,380.65
Provisional receipt of share capital increase from the Hep Jiang County Comprehensive Administration and Law Enforcement Bureau Amount - capital increase agreement not yet finalised and signed	12,330,462.64	
Bank interest income	9,786,316.49	7,631,847.79
Recovery of prepayment for land for the Beijiao No. 2 Water Treatment Plant returned by the Sichuan Luzhou Yangtze River Economic Development Zone Management Committee Prepayment for land for Beijiao No. 2 Water Treatment Plant returned by the Management Committee	4,000,000.00	
Advances	3,296,466.18	3,359,241.33
Income from default compensation and fines	1,238,256.12	2,339,237.05
Reserves	1,116,352.73	1,079,036.04
Others	2,421,085.41	1,904,063.07
<b>Total</b>	<b>87,362,202.09</b>	50,791,118.94

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 53. Cash flows statement (Continued)

(1) **Other cash receipt/paid related to operating/investing/financing activities (Continued)**

2) *Other cash payment related to operating activities*

Item	Amount for the year	Amount for previous year
Advances	40,849,477.93	34,296,853.18
Collateral	13,143,673.20	19,070,711.69
Leasehold charges	4,668,128.80	4,373,943.02
Telecommunication fees	2,117,562.45	2,124,404.99
Intermediary Fee	1,969,563.16	2,189,805.84
Vehicle usage fees	1,474,144.25	1,084,592.60
Reserves	1,090,924.90	1,138,317.36
Business entertainment expenses	1,034,446.26	621,465.65
Office expenses	991,112.14	1,066,005.21
Publicity expenses	978,763.92	700,168.23
Travel expenses	974,731.17	940,565.99
Bank handling fees	868,219.33	837,530.56
Utilities fees	584,386.29	103,334.47
Others	9,591,266.37	7,344,187.48
<b>Total</b>	<b>80,336,400.17</b>	75,891,886.27

3) Other cash receipt related to investing activities: None.

4) Other cash payment related to investing activities: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 53. Cash flows statement (Continued)

##### (1) Other cash receipt/paid related to operating/investing/financing activities (Continued)

##### 5) Other cash receipt related to financing activities

Item	Amount for the year	Amount for previous year
Receipt of special bonds issued by local governments for infrastructure construction	<u>405,000,000.00</u>	<u>405,000,000.00</u>

##### 6) Other cash payments related to financing activities

Item	Amount for the year	Amount for previous year
Repayment of principal of loans from former shareholders of Weiyuan Water	44,700,000.00	2,100,000.00
Payment of lease liabilities	2,133,900.42	82,400.00
Payment of interest on loans made by Wayuan Water to employees	205,718.28	4,091,516.67
Repayment of loans from Sichuan Zhonghengfeng Investment Company Limited by Weiyuan Water	<u>5,000,000.00</u>	<u>5,000,000.00</u>
<b>Total</b>	<u><b>47,039,618.70</b></u>	<u><b>11,273,916.67</b></u>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 53. Cash flows statement (Continued)

##### (2) Supplementary information to consolidated cash flows statement

Item	Amount for the year	Amount for previous year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	260,974,830.88	261,426,666.22
Add: Impairment loss on assets	12,215,470.04	4,814,231.38
Impairment loss on credit	16,669,742.55	4,288,391.80
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	221,838,535.66	167,057,453.92
Depreciation of right-of-use assets	891,309.75	623,441.56
Amortization of intangible assets	63,975,859.52	36,070,662.74
Amortization of long-term prepaid expenses	21,248,599.42	6,169,128.18
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")		(9,743.84)
Loss on retirement of fixed assets (Gain denoted in "-")	(1,288,304.88)	(239,575.05)
Loss on change in fair value (Gain denoted in "-")		
Financial expenses (Gain denoted in "-")	117,693,774.52	103,991,053.58
Investment loss (Gain denoted in "-")	(673,396.83)	(719,536.09)
Decrease in deferred tax assets (Increase denoted in "-")	(2,168,929.34)	(664,236.00)
Increase in deferred tax liabilities (Decrease denoted in "-")	(332,759.52)	(331,931.38)
Decrease in inventories (Increase denoted in "-")	35,613,149.33	(11,355,569.61)
Decrease in operating receivables (Increase denoted in "-")	(265,979,621.55)	(190,172,511.90)
Increase in operating payables (Decrease denoted in "-")	56,518,052.98	(11,505,355.22)
Others		
<b>Net cash flows from operating activities</b>	<b>537,196,312.53</b>	<b>369,442,570.29</b>
<b>2. Significant investment and financing activities not involving cash receipts and payments:</b>		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
<b>3. Net movement in cash and cash equivalents:</b>		
Cash at the end of the year	871,742,078.87	1,036,192,605.00
Less: Cash at the beginning of the year	1,036,192,605.00	1,095,913,572.43
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
<b>Net increase in cash and cash equivalents</b>	<b>(164,450,526.13)</b>	<b>(59,720,467.43)</b>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 53. Cash flows statement (Continued)

- (3) Net cash payment for acquisition of subsidiaries during the year: None.
- (4) Net cash received for disposal of subsidiaries during past years: None.
- (5) **Cash and cash equivalents**

Item	Amount for the year	Amount for previous year
Cash	871,742,078.87	1,036,192,605.00
Including: Cash on hand	7,363.71	5,375.94
Bank deposits that are readily available for payment	871,734,715.16	1,036,187,229.06
Other cash at bank and on hand that are readily available for payment		
Funds on deposit with the Central Bank available for disbursement		
Interbank deposits		
Loans of interbank funds		
Cash equivalents		
Including: Bond investments due within three months		
<b>Cash and cash equivalents balance at the end of the year</b>	<b>871,742,078.87</b>	<b>1,036,192,605.00</b>

54. Statement of changes in shareholders' equity items: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 55. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Cash at bank and on hand	2,500.00	ETC Collateral, business freezes
Intangible assets	776,249,480.58	Loans secured by pledge of tap water and wastewater tariff rights – Note ①, ②, ③, ④
Fixed Assets	163,027,746.65	Loan secured by a pledge of the right to charge for wastewater treatment – Note ⑤, ⑥
Construction in progress	52,388,831.25	Loan secured by a pledge of the right to charge for wastewater treatment – Note ⑦
Long-term equity investment in the parent company	117,000,000.00	Pledge of equity interest held in Fanxing Environmental to guarantee the Company's bank loans – Note ⑧
<b>合計</b>	<b>1,108,668,558.48</b>	

Note:

① On 25 April 2018, the Company signed a loan contract with Luzhou Rural Commercial Bank Co., Ltd. in the amount of RMB207 million for the construction of water supply infrastructure in Jiang Yang District, Luzhou City for a term of 9 years, which was secured by a pledge of the charging right of the whole area safe water supply project in Jiang Yang District, Luzhou City.

② On 14 January 2021, Fanxing Environmental signed a loan contract with Great Wall West China Bank Co., Ltd. Luzhou Branch in the amount of RMB60 million for the payment of a loan from a related party for a term of 144 months and was pledged by Fanxing Environmental with the concession rights for the construction of wastewater treatment facilities in rural and rural areas of Gulin County of Luzhou Fanxing Environmental Development Co., Ltd. (amounting to RMB150 million). The Company provided a joint and several liability guarantee.

On 29 January 2021, Fanxing Environmental signed a loan contract with Great Wall West China Bank Co., Ltd. Luzhou Branch in the amount of RMB14.95 million for the payment of equipment items for a term of 144 months and was pledged by Fanxing Environmental with the concession rights for the construction of wastewater treatment facilities in rural and rural areas of Gulin County of Luzhou Fanxing Environmental Development Co., Ltd. (amounting to RMB150 million). The Company provided a joint and several liability guarantee.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 55. Assets with limited ownership or use rights (Continued)

Note: (Continued)

- ③ On 17 July 2020, Qingbaijiang Water signed a loan contract with Industrial and Commercial Bank of China Limited Qingbaijiang Branch in the amount of RMB138.8 million for the construction of the “European Industrial City Wastewater Purification Plant Project PPP Project” with a loan term of 15 years, which is secured by a pledge of the revenue receivable from the “European Industrial City Wastewater Purification Plant Project PPP Project” of Qingbaijiang Water for the next 15 years, such as wastewater treatment service fees.
- ④ Weiyuan Water borrowed RMB35 million from Sichuan Weiyuan Rural Commercial Bank Co., Ltd. on 19 February 2021 for a term from 19 February 2021 to 8 February 2024, with Weiyuan Water’s water tariff rights and real estate (Certificate No. 0000360, 0000400, 0000397, 0000398, 0000396, 0000401, 0000399, 0000599, and 0000598 of Chuan (2021) Weiyuan County Real Estate No. 0000360) as at 30 June 2035 as pledge and security for the loan.
- ⑤ On 9 November 2021, Xinghe Water Governance entered into a loan contract in the amount of RMB41 million with Agricultural Bank of China Limited, Hejiang Shaomin Road Branch, for the construction of the project to increase the capacity of the Zhangwan Wastewater Treatment Plant in the county seat of Hejiang County for a term of 15 years, which was pledged by Xinghe Water Governance under a concession agreement and a service agreement and is jointly and severally guaranteed by Luzhou Xinglu Wastewater Treatment Co., Ltd.
- ⑥ In October 2021, Xinglu Wastewater signed a loan contract with CITIC Bank Limited Luzhou Branch in the amount of RMB126 million for the construction of the third phase of the Luzhou Naxi Wastewater Treatment Plant with a term of 12 years. Xinglu Wastewater pledged as security for the tolling rights in the Luzhou City Naxi Wastewater Treatment Plant Phase III Project under the “Luzhou City Urban Domestic Wastewater Treatment Concession Agreement” (the “Concession Agreement”) and the “Luzhou City Urban Domestic Wastewater Treatment Services Agreement” under the Concession Agreement (hereinafter collectively with the Concession Agreement, the “Transaction Contracts”) signed between Wastewater Company and the Luzhou Housing and Urban-Rural Planning and Construction Bureau.
- ⑦ On 18 January 2021, Dechang Water signed a loan contract in the amount of RMB50 million with Dechang Branch of Liangshan Rural Commercial Bank Limited for the “Sewage Treatment Plant and Supporting Pipeline Network (Phase I) Project”, a PPP project for the construction of sewage treatment and infrastructure in the industrial concentration area in Dechang County, with a term of 15 years. Dechang Water pledged the revenue from government viability gap subsidy, user fee revenue and operation and maintenance service fee for the full cycle from December 2035 under the Dechang County Industrial Concentration Area Sewage Treatment and Infrastructure Construction PPP Project Contract as a pledge, with the Company assuming joint and several guarantee obligations.
- ⑧ On 16 August 2019, the Company signed a merger and acquisition loan contract with Industrial and Commercial Bank of China Limited Luzhou Branch in the amount of RMB70 million, which was used to repay the amount paid for the merger and acquisition transaction with its own working capital in the previous period, with a loan term of 7 years. It is guaranteed jointly and severally by Luzhou Xinglu Wastewater Treatment Co., Ltd. and is secured by a pledge of 92.5% of the Company’s equity interest in Luzhou Fanxing Environmental Development Co.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 6. NOTES TO THE KEY ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 56. Monetary items in foreign currencies

##### (1) Monetary items in foreign currencies

Item	Closing balance of foreign currency	Translation rate	Closing balance denominated in RMB
Cash at bank and on hand Including: HKD	<u>1,705,675.68</u>	0.8176	<u>1,394,560.44</u>

##### (2) Overseas operating entities

The Group has no foreign operating entities.

#### 57. Government grants

##### (1) Basic information of government grants

Category	Amount	Item	Amount included in the profit or loss of the year
VAT refunds on demand	4,772,241.84	Other revenue	4,772,241.84
Financial Interaction Grant	3,415,800.00	Other revenue	3,415,800.00
Urban Water Supply Network Improvement Project	601,650.49	Deferred revenue	60,165.05
Naxi III Central Fund Grant	10,000,000.00	Deferred revenue	
Subsidy for vocational training for enterprise workers	202,929.50	Non-operating income	202,929.50
Other sporadic grants	<u>883,196.44</u>	Other revenue	<u>883,196.44</u>
<b>Total</b>	<u>19,875,818.27</u>		<u>9,334,332.83</u>

##### (2) Refund of government grants for the year: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 7. CHANGE IN SCOPE OF CONSOLIDATION

1. Business combination involving entities not under common control: None.
2. Business combination involving entities under common control: None.
3. Changes in consolidation scope for other reason

During the year, the Company completed the absorption and merger of Jiangnan Water and Naxi Water. As of the date of this report, the business registration of Jiangnan Water and Naxi Water, which were absorbed and merged, had not yet been completed.

### 8. INTERESTS IN OTHER ENTITIES

#### 1. Interests in subsidiaries

##### (1) Composition of enterprise group

Name of subsidiary	Principal place of business	Place of registration	Category of legal person	Registered capital (RMB'0000)	Business nature	Shareholding percentage (%)		Method for acquisition
						Direct	Indirect	
Hejiang Water	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	11,693.95	Water supply	79.83		Subsidiaries acquired through business combinations not under common control
Crystal Trading	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	52.00	Trading	100.00		Subsidiary acquired by way of establishment
Nanjiao Water	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	976.60	Water supply	99.53		Subsidiaries acquired through business combinations not under common control
Beijiao Water	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	4,390.94	Water supply	98.41		Subsidiaries acquired through business combinations not under common control
Sitong Engineering	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	501.00	Construction work	100.00		Subsidiaries acquired through business combinations not under common control
Zhihui Technology*	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	500.00	R&D and sales of software		35.00	Subsidiary acquired by way of establishment
Sitong Design	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	50.00	Technology services	99.82		Subsidiaries acquired through business combinations not under common control
Weiyuan Water	Neijiang, Sichuan	Neijiang, Sichuan	Limited liability company	1,760.00	Water supply	60.00		Subsidiaries acquired through business combinations not under common control

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (1) Composition of enterprise group (Continued)

Name of subsidiary	Principal place of business	Place of registration	Category of legal person	Registered	Business nature	Shareholding percentage (%)		Method for acquisition
				capital (RMB'0000)		Direct	Indirect	
Weiyuan Installation	Neijiang, Sichuan	Neijiang, Sichuan	Limited liability company	500.00	Installation of pipelines	60.00		Subsidiaries acquired through business combinations not under common control
Xingxu Water	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	1,000.00	Water supply	60.00		Subsidiary acquired by way of establishment
Xinglu Wastewater	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	26,840.82	Wastewater treatment	98.00		Allocation
Xinghe Water Governance	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	6,000.00	Wastewater treatment		51.00	Subsidiary acquired by way of establishment
Fanxing Environmental	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	11,994.64	Wastewater treatment	92.50		Subsidiaries acquired through business combinations not under common control
Yongxing Water Governance	Luzhou, Sichuan	Luzhou, Sichuan	Limited liability company	1,000.00	Wastewater treatment		55.00	Subsidiary acquired by way of establishment
Xingjia Environmental	Leshan, Sichuan	Leshan, Sichuan	Limited liability company	3,840.41	Wastewater treatment	95.00		Subsidiary acquired by way of establishment
Leibo Water	Liangshan, Sichuan	Liangshan, Sichuan	Limited liability company	6,000.00	Water supply	50.98		Subsidiary acquired by way of establishment
Dechang Water	Liangshan, Sichuan	Liangshan, Sichuan	Limited liability company	1,773.91	Water supply	88.00		Subsidiary acquired by way of establishment
Qingbaijiang Water	Chengdu, Sichuan	Chengdu, Sichuan	Limited liability company	3,471.14	Water supply	99.90		Subsidiary acquired by way of establishment

\* On 22 January 2020, Sitong Engineering established Zhihui Water Science and Technology Co., Ltd. together with Jiangyang Huakong Habitat Water Supply Technology Service Co., Ltd., Suzhou Huakong Qingyuan System Technology Co., Ltd. and Fuzhou Beikong Zerun Holding Investment Partnership (Limited Partnership). Zhihui Technology has a registered capital of RMB5,000,000, of which: Sitong Engineering has contributed RMB1.7500 million to hold 35.00% equity interest in Zhihui Technology; Jiangyang Huakong Habitat Water Supply Technology Service Co. Ltd. contributed RMB1.500 million to hold 30.00% equity interest; Suzhou Huakong Qingyuan System Technology Co., Ltd. contributed RMB1.2500 million to hold 25.00% equity interest; Fuzhou Beikong Zerun Holding Investment Partnership (Limited Partnership) contributed RMB0.500 million to hold 10.00% equity interest. Sitong Engineering entered into a unified action agreement with Suzhou Huakong Qingyuan System Technology Co., Ltd. and Fuzhou Beikong Zerun Holding Investment Partnership (Limited Partnership). The agreement enables Sitong Engineering to take control of Zhihui Technology and bring it into the scope of consolidation from 2020.

Note: As of 31 December 2021, there were no public offerings of shares and debentures by the Company's subsidiaries.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (2) Non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the year	Dividends paid to minority interests for the year	Closing balance of minority interests
Luzhou Xinglu Wastewater Treatment Co., Ltd.	2.00	1,918,555.98		18,094,931.57
Luzhou Xinghe Water Governance Co., Ltd.	49.00	3,285,164.05	616,698.62	36,699,610.54
Luzhou Fanxing Environmental Development Co., Ltd.	7.50	590,185.47		12,237,652.82
Xuyong Yongxing Water Governance Co., Ltd.	45.00	137,577.72		1,552,818.85
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.	5.00	7,805.71		1,927,976.98
Zhihui Water Science and Technology Co., Ltd.	65.00	438,518.98		3,780,472.82
Luzhou Nanjiao Water Co., Ltd.	0.47	(1,236.33)		52,703.08
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	1.59	46,320.82		2,131,369.45
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	20.17	3,274,941.87		47,456,363.56
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	40.00	700,898.21		4,333,767.68
Chengdu Qingbaijiang Xinglu Water Co., Ltd.	0.10	648.69		34,935.14
Dechang Xinglu Water Co., Ltd.	12.00	(4,306.85)		2,121,757.75
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	40.00	8,018,819.91		23,809,681.44
Leibo Xinglu Water Co., Ltd.	49.02	407,086.97		19,874,695.60
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	0.18	699.57		4,052.07
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	40.00	226,792.03		10,779,679.50
<b>Total</b>		<b>19,048,472.80</b>	<b>616,698.62</b>	<b>184,892,468.85</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (3) Major financial information of non-wholly-owned subsidiaries

Name of subsidiary	Closing balance				Non-current liabilities	Total liabilities
	Current assets	Non-current assets	Total assets	Current liabilities		
Luzhou Xinglu Wastewater Treatment Co., Ltd.	528,416,119.56	1,281,397,239.78	1,809,813,359.34	214,676,437.37	664,454,886.38	879,131,323.75
Luzhou Xinghe Water Governance Co., Ltd.	48,819,294.06	94,761,104.94	143,580,399.00	49,740,837.67	10,000,000.00	59,740,837.67
Luzhou Fanxing Environmental Development Co., Ltd.	60,516,330.24	287,985,907.92	348,502,238.16	71,277,749.24	134,974,811.07	206,252,560.31
Xuyong Yongxing Water Governance Co., Ltd.	3,690,068.05	522,876.15	4,212,944.20	762,235.64		762,235.64
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.	15,966,496.68	22,954,003.46	38,920,500.14	360,960.38		360,960.38
Zhihui Water Science and Technology Co., Ltd.	15,158,818.49	32,009.88	15,190,828.37	9,374,716.35		9,374,716.35
Luzhou Nanjiao Water Co., Ltd.	2,983,048.33	18,132,416.15	21,115,464.48	9,902,042.90		9,902,042.90
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	64,458,498.52	81,228,079.02	145,686,577.54	10,789,776.95		10,789,776.95
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	82,847,206.88	448,226,452.39	531,073,659.27	50,494,479.34	245,678,112.89	296,172,592.23
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	5,713,109.15	12,360,407.24	18,073,516.39	7,239,097.19		7,239,097.19
Chengdu Qingbaijiang Xinglu Water Co., Ltd.	23,811,049.46	140,598,444.87	164,409,494.33	52,426,114.32	77,036,844.49	129,462,958.81
Dechang Xinglu Water Co., Ltd.	6,762,953.27	52,399,019.86	59,161,973.13	10,680,658.57	30,800,000.00	41,480,658.57
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	59,705,610.21	125,264,566.69	184,970,176.90	92,716,540.94	32,000,000.00	124,716,540.94
Leibo Xinglu Water Co., Ltd.	24,296,878.19	27,355,164.79	51,652,042.98	11,066,833.56	39,917.00	11,106,750.56
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	2,108,289.40	171,842.16	2,280,131.56	28,979.97		28,979.97
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	27,629,098.52	232,878.84	27,861,977.36	912,778.59		912,778.59



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (3) Major financial information of non-wholly-owned subsidiaries (Continued)

(Continued)

Name of subsidiary	Current assets	Non-current assets	Opening balance		Non-current liabilities	Total liabilities
			Total assets	Current liabilities		
Luzhou Xinglu Wastewater Treatment Co., Ltd.	528,782,020.86	1,220,964,438.32	1,749,746,459.18	256,857,551.92	659,939,718.72	916,797,270.64
Luzhou Xinghe Water Governance Co., Ltd.	24,739,259.71	69,201,086.62	93,940,346.33	18,013,162.51		18,013,162.51
Luzhou Fanxing Environmental Development Co., Ltd.	94,070,678.21	253,414,068.63	347,484,746.84	113,322,853.49	77,044,272.41	190,367,125.90
Xuyong Yongxing Water Governance Co., Ltd.	3,504,166.73	198,963.03	3,703,129.76	558,149.47		558,149.47
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.	16,801,305.06	22,126,918.76	38,928,223.82	524,798.32		524,798.32
Zhuihui Water Science and Technology Co., Ltd.	7,697,850.91	18,397.69	7,716,248.60	2,574,781.16		2,574,781.16
Luzhou Nanjiao Water Co., Ltd.	4,501,758.10	18,431,282.95	22,933,041.05	11,456,570.27		11,456,570.27
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	52,643,983.42	90,015,264.24	142,659,247.66	10,694,144.63		10,694,144.63
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	53,739,321.59	439,302,761.04	493,042,082.63	129,728,616.17	160,769,222.25	290,497,838.42
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	2,285,828.41	14,105,319.45	16,391,147.86	7,163,229.63	148,564.55	7,311,794.18
Chengdu Qingbaijiang Xinglu Water Co., Ltd.	12,911,200.58	91,029,253.13	103,940,453.71	16,127,833.52	53,514,771.67	69,642,605.19
Dechang Xinglu Water Co., Ltd.	4,141,371.69	39,239,819.19	43,381,190.88	25,663,985.88		25,663,985.88
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	32,162,879.36	132,329,113.13	164,491,992.49	124,836,686.89		124,836,686.89
Leibo Xinglu Water Co., Ltd.	22,625,288.32	27,651,656.53	50,276,944.85	10,482,335.40	112,379.82	10,594,715.22
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	2,311,087.21	208,454.89	2,519,542.10	657,038.10		657,038.10
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	28,547,406.34	227,064.67	28,774,471.01	2,392,252.32		2,392,252.32

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (3) Major financial information of non-wholly-owned subsidiaries (Continued)

(Continued)

Name of subsidiary	Operating income	Amount for the year		Cash flow from operating activities
		Net profit	Total comprehensive income	
Luzhou Xinglu Wastewater Treatment Co., Ltd.	393,270,702.56	95,927,799.02	95,927,799.02	176,102,667.45
Luzhou Xinghe Water Governance Co., Ltd.	42,011,075.67	9,448,271.63	9,448,271.63	2,592,855.18
Luzhou Fanxing Environmental Development Co., Ltd.	60,845,549.02	7,869,139.60	7,869,139.60	23,483,001.47
Xuyong Yongxing Water Governance Co., Ltd.	5,220,774.74	305,728.27	305,728.27	(1,692,817.03)
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.	3,384,295.41	156,114.26	156,114.26	(1,612,792.95)
Zhihui Water Science and Technology Co., Ltd.	12,314,757.31	674,644.58	674,644.58	745,991.44
Luzhou Nanjiao Water Co., Ltd.	10,216,747.45	(263,049.20)	(263,049.20)	1,288,633.29
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	47,764,837.75	2,931,697.56	2,931,697.56	14,963,919.63
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	80,286,732.72	16,236,697.43	16,236,697.43	27,752,911.44
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	7,597,198.66	1,752,245.52	1,752,245.52	2,820,406.52
Chengdu Qingbaijiang Xinglu Water Co., Ltd.	15,233,097.01	648,687.00	648,687.00	(6,516,142.03)
Dechang Xinglu Water Co., Ltd.		(35,890.44)	(35,890.44)	
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	61,122,733.79	20,047,049.78	20,047,049.78	31,756,566.41
Leibo Xinglu Water Co., Ltd.	10,153,597.94	830,789.73	830,789.73	2,230,096.57
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	559,052.20	388,647.59	388,647.59	705,045.97
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	418,008.33	566,980.08	566,980.08	(887,998.21)

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 1. Interests in subsidiaries (Continued)

##### (3) Major financial information of non-wholly-owned subsidiaries (Continued)

(Continued)

Name of subsidiary	Operating income	Net profit	Amount for the previous year	
			Total comprehensive income	Cash flow from operating activities
Luzhou Xinglu Wastewater Treatment Co., Ltd.	358,470,897.43	86,980,158.34	86,980,158.34	165,723,467.66
Luzhou Xinghe Water Governance Co., Ltd.	34,795,216.40	7,578,323.53	7,578,323.53	8,329,606.13
Luzhou Fanxing Environmental Development Co., Ltd.	54,999,866.33	25,058,993.73	25,058,993.73	24,272,584.23
Xuyong Yongxing Water Governance Co., Ltd.	2,508,121.10	171,998.93	171,998.93	978,169.21
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.		(654.77)	(654.77)	
Zihui Water Science and Technology Co., Ltd.	2,340,708.07	141,467.44	141,467.44	92,629.33
Luzhou Nanjiao Water Co., Ltd.	12,557,013.87	(2,324,048.50)	(2,324,048.50)	347,169.89
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	50,550,765.77	4,151,089.56	4,151,089.56	12,458,130.55
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	43,011,489.75	7,351,199.10	7,351,199.10	16,630,561.17
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.	2,182,772.90	(938,845.36)	(938,845.36)	1,439,957.58
Chengdu Qingbaijiang Xinglu Water Co., Ltd.	8,039,030.32	(413,551.48)	(413,551.48)	(1,287,744.42)
Dechang Xinglu Water Co., Ltd.		(21,845.00)	(21,845.00)	20,830.83
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	54,448,513.51	13,637,419.30	13,637,419.30	30,546,259.14
Leibo Xinglu Water Co., Ltd.	5,825,290.12	(544,606.25)	(544,606.25)	1,718,409.93
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	1,971,573.61	(54,275.39)	(54,275.39)	(111,148.54)
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	10,032,989.37	4,708,745.76	4,708,745.76	(678,667.58)

(4) Major Restrictions on Use of Assets and Repayment of Debts of the Enterprise Group: None.

(5) Financial or Other Support Provided to the Consolidated Structured Entity Included in the Consolidated Financial Statements: None.

2. Transactions Involving Changes in Ownership Shares in Subsidiaries and Still Controlling Subsidiaries: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 3. Interests in joint ventures or associates

##### (1) Joint ventures or associates

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Accounting method for investment in joint ventures or associates
				Direct	Indirect	
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.	Yibin, Sichuan	Yibin, Sichuan	Engineering	12.72		Equity method

##### (2) Major financial information of joint ventures: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 3. Interests in joint ventures or associates (Continued)

##### (3) Major financial information of associates

<b>Item</b>	<b>Closing balance/ Amount for the year Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.</b>	<b>Opening balance/ Amount for the previous year Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.</b>
Current assets	1,237,235,232.49	1,136,737,257.80
Including: Cash and cash equivalent	714,177,449.49	762,428,557.24
Non-current assets	2,111,328,925.53	1,017,242,932.48
Total assets	3,348,564,158.02	2,153,980,190.28
Current liabilities	268,552,707.05	119,827,519.15
Non-current liabilities	2,589,498.15	2,024,718.55
Total liabilities	271,142,205.20	121,852,237.70
Minority interests		
Equity attributable to shareholders of the parent company	3,077,421,952.82	2,032,127,952.58
Share of net assets based on percentage of shareholding*	391,448,072.40	355,825,604.50
Adjustment		
– Goodwill		
– Unrealised profits from internal transactions		
– Others		
Carrying value of investments in interests in associates*	55,275,609.48	54,602,212.65
Fair value of equity investments in associates where publicly quoted prices exist		
Operating income		
Finance costs	(8,588,952.69)	(6,951,555.17)
Income tax expense	1,213,560.08	1,319,343.88
Net profit	5,294,000.24	3,917,559.44
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	5,294,000.24	3,917,559.44
Dividends received from associates during the year		

\*Note: The carrying value of the Company's equity investment in the associate has been based on the Company's actual capital contribution and the Company's proportionate share of the investee's retained earnings, as the net assets of Sichuan Xiangjiaba Irrigation Construction and Development Co. Ltd. include dedicated financial inputs from the central and local governments.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 8. INTERESTS IN OTHER ENTITIES (Continued)

#### 3. Interests in joint ventures or associates

- (4) Summary on financial information for insignificant joint ventures and associates : None.
- (5) Explanation on the significant restrictions for joint ventures or associates transferring funds to the Company: None.
- (6) Excess loss generated in joint ventures or associates: None.
- (7) Unrecognized commitment related to investment in joint ventures: None.
- (8) Contingent liabilities related to investment in joint ventures or associates: None.

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include (among others) loans, receivables, payables. Detailed descriptions of these financial instruments are set out in Note VI. Notes to the Key Items in the Consolidated Financial Statements set out below the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure that such risks are contained within a prescribed scope.

#### 1. Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS (Continued)

#### 1. Objective and policies of risk management (Continued)

##### (1) *Market risk*

###### 1) *Interest rate risk*

The Group's interest rate risk arises from interest-bearing debt such as bank borrowings. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk and financial liabilities with fixed interest rates expose the Group to fair value interest rate risk. The Group determines the relative proportion of fixed rate and variable rate contracts based on prevailing market conditions. As of the end of the year, the Group's interest-bearing debts were mainly RMB-denominated fixed-rate borrowing contracts and floating-rate borrowing contracts, as described in the items "VI.20. Short-term borrowings", "VI.26. Non-current liabilities due within one year", "VI.28. Long-term borrowings", "VI.29. Bonds payable" and "VI.31. Long-term payables" in this note.

###### 2) *Price risk*

The Group's revenue is calculated on the basis of the unit price agreed between the customer's actual usage or guaranteed volume and the relevant government departmental agreement and is derived from revenue from the sale of tap water and service charges for the provision of sewage treatment, etc. Although the Group is eligible to apply for unit price adjustments under the relevant agreements, government departments may exercise discretionary or restrictive powers not to increase or even to reduce the unit prices. In addition, the Group provides construction and installation services and purchases raw materials for production at market prices, which may be affected by market fluctuations.

###### 3) *Credit risk*

As at the end of the year, the largest credit risk exposure that might induce financial loss of the Group was mainly attributable to contractual counterparty's non-performance of its obligations which could lead to losses in financial assets of the Group, particularly, the carrying amount of financial assets recognised in the balance sheet.

In order to mitigate credit risk, the Group carried out monitoring procedures to ensure necessary measures are adopted to recover overdue debts. Besides, the Group reviews the recoverability of individual receivables at each balance sheet date, to ensure that sufficient provisions for bad debts have been made for irrecoverable amounts. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS (Continued)

#### 1. Objective and policies of risk management (Continued)

##### (1) Market risk (Continued)

##### 3) Credit risk (Continued)

The Group places its liquidity in banks with relatively high credit ratings, therefore, the credit risk with respect to liquidity is low.

The Group's major customers are government departments and state-owned enterprises, and the Group has adopted the necessary policies to ensure that all sales customers have a good credit history and therefore the credit risk on receivables is relatively low. At the end of the year, the Group had no other significant credit risk exposure against its top five customers.

##### 4) Liquidity risk

Liquidity risk is the risk that the Group is unable to discharge its financial obligations when due. The Group manages its liquidity risk to ensure that it has adequate liquidity to serve the debts as they fall due, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity is carried out on a regular basis by the Group to ensure adequate liquidity. The management of the Group monitors the utilisation of bank loans to ensure that the borrowing agreements are complied with. Meanwhile, in order to minimize liquidity risk, the Group negotiates with financial institutions to maintain certain facilities.

An analysis of the Group's financial liabilities held, based on the maturity of the undiscounted residual contractual obligations, is as follows:



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 9. RISKS RELATING TO FINANCIAL INSTRUMENTS (Continued)

#### 1. Objective and policies of risk management (Continued)

##### (1) Market risk (Continued)

##### 4) Liquidity risk (Continued)

The undiscounted contractual cash flows of financial liabilities of the Group based on maturity date were as follows:

Amount as at 31 December 2021:

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>Financial liabilities</b>					
Short-term borrowings	239,282,822.21			239,282,822.21	
Accounts payable	539,836,787.88			539,836,787.88	
Other payables	179,435,483.30			179,435,483.30	
Employee remunerations payable	47,331,380.98			47,331,380.98	
<b>Non-current liabilities</b>					
due within one year	927,384,820.86			927,384,820.86	
Long-term borrowings		161,004,377.76	450,633,128.28	779,018,858.70	1,390,656,364.74
Long-term payables		15,941,661.55	3,334,794.92	566,015,558.09	585,292,014.56

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 10. DISCLOSURE OF FAIR VALUE

#### 1. Fair value of assets and liabilities measured at fair value as at the end of the year

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
<b>I. Fair value measurement on a recurring basis</b>				
(i) Transactional financial assets				
1. Financial assets at fair value through profit or loss				
(1) Investment in debt instruments				
(2) Investment in equity instruments				
(3) Derivative financial assets				
(4) Others				
2. Financial assets designated at fair value through profit or loss				
(1) Investment in debt instruments				
(2) Investment in equity instruments				
(3) Others				
(II) Other debt investments				
(III) Investment in other equity instruments			21,252.07	21,252.07
(IV) Investment property				
1. Leased land use rights				
2. Leased buildings				
3. Possessed land use rights to be transferred after appreciation				
<b>Total assets measured at fair value on a recurring basis</b>			21,252.07	21,252.07

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 10. DISCLOSURE OF FAIR VALUE (Continued)

#### 1. Fair value of assets and liabilities measured at fair value as at the end of the year (Continued)

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
(V) Transactional financial liabilities				
1. Financial liabilities at fair value through profit or loss				
Including: Issued trading bonds				
Derivative financial liabilities				
Others				
2. Financial liabilities designated at fair value through profit or loss				
<b>Total liabilities measured at fair value</b>				
II. <b>Non-sustained fair value measurement</b>				
(I) Assets held for sale				
Total assets with non-sustained fair value measurement				
<b>Total liabilities with non-sustained fair value measurement</b>				

2. Valuation techniques and qualitative and quantitative information for level 1 items measured on and not on a recurring basis: None.

3. Valuation techniques and qualitative and quantitative information for level 2 items measured on and not on a recurring basis: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 10. DISCLOSURE OF FAIR VALUE (Continued)

4. Valuation techniques and qualitative and quantitative information for level 3 items measures on and no on a recurring basis

Financial instruments included in level 3 are primarily unlisted equity investments held by the Company, the fair value of which is determined using the asset base approach, market approach estimates to determine their fair value, with appropriate risk adjustments for lack of marketability or due to differences in size or for specific risks.

5. Ongoing level 3 fair value measurements, reconciliation between opening and closing carrying values and sensitivity analysis of unobservable parameters: None.
6. Ongoing fair value measurements, transfers between levels occurred during the period: During the period, for ongoing fair value measurements, the Group did not have any transfers between level 1 and level 2, or transfers in or out to level 3.
7. Valuation technical changes that occurred during the period and the reasons for these changes: None.

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### (I) Relationship between related party

1. **Particulars of the controlling shareholders and the ultimate holding company**

(1) *Particulars of the controlling shareholders and the ultimate holding company*

Name of the controlling shareholders and the ultimate holding company	Registration address	Business nature	Registered capital	Shareholding in the Company (%)	Voting rights in the Company (%)
Luzhou City Xinglu Investment Group Co., Ltd.	Luzhou City, Sichuan Province	Investment Service Industry	RMB4,934,049,244	59.51	59.51

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (I) Relationship between related party (Continued)

##### 1. Particulars of the controlling shareholders and the ultimate holding company (Continued)

###### (2) Controlling shareholder's registered capital and its changes

Controlling shareholder	Opening balance	Increase for the year	Decrease for the year	Closing balance
Luzhou City Xinglu Investment Group Co., Ltd.	RMB4,934,049,244			RMB4,934,049,244

###### (3) Shareholding of controlling shareholder and its changes

Controlling shareholder	Shareholding amount		Percentage of shareholding (%)	
	Closing balance	Opening balance	Percentage at the end of the year	Percentage at the beginning of the year
Luzhou City Xinglu Investment Group Co., Ltd.	<u>511,654,127.00</u>	<u>511,654,127.00</u>	<u>59.51</u>	<u>59.51</u>

##### 2. Subsidiaries

For details of subsidiaries, please see note 8(1) "(1) Composition of enterprise group".

##### 3. Joint ventures and associates

For details of the joint ventures or associates of the Company, please see note 8(3)(1) "Joint ventures or associates".

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (I) Relationship between related party (Continued)

##### 4. Other related parties of the Company

Name of other related parties	Relationship with the Company
Luzhou City Xinglu Assets Management Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Xinglu Property Management Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Xinglu Jutai Construction Company Limited	Controlled by the same controlling shareholder
Luzhou Xinglu Jutai Construction Company Limited Jiangyang Branch	Controlled by the same controlling shareholder
Luzhou Jiangnan New District Construction and Investment Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Jiaotou Group Car Station Construction Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Jiaotou Group Asset Operating Management Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Jiaotou Group Asset Operating Management Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Xinglu Environmental Logistics Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Xuxing Construction Industry Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Parking Lot Infrastructure Construction Investment Co., Ltd.	Controlled by the same controlling shareholder

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (I) Relationship between related party (Continued)

##### 4. Other related parties of the Company (Continued)

<u>Name of other related parties</u>	<u>Relationship with the Company</u>
Luzhou Jiangyang District Public Transportation Co., Ltd.	Controlled by the same controlling shareholder
Hejiang Xingyan Natural Gas Co., Ltd	Controlled by the same controlling shareholder
Luzhou Naxixing Gas Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Cultural Tourism Tianyi Culture Media Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Lingang Siyuan Concrete Co., Ltd.	Controlled by the same controlling shareholder
Luzhou Aviation Development Investment Group Co., Ltd.	Significantly influenced by the controlling shareholder of the Company
Luzhou Lingang Industrial Development Co., Ltd.	Significantly influenced by the controlling shareholder of the Company
Luzhou Lingang Investments Group Co., Ltd.	Significantly influenced by the controlling shareholder of the Company
Luzhou Lingang Industrial Construction Co., Ltd.	Significantly influenced by the controlling shareholder of the Company
Luzhou Yunlong Airport Development Co., Ltd.	Significantly influenced by the controlling shareholder of the Company
Luzhou Laojiao Co., Ltd.	Controlled by the third largest shareholder of the Company

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions

##### 1. *Connected transactions for the purchase and sale of goods, provision and receipt of services*

###### (1) *Purchase of goods/receipt of services*

<b>Related party</b>	<b>Particulars of related party transactions</b>	<b>Amount for the year</b>	<b>Amount for previous year</b>
Luzhou Xinglu Property Management Co., Ltd.	Property fees	3,895,999.92	4,623,370.45
Luzhou Xuxing Construction Industry Co., Ltd.	Engineering construction services		2,000,000.00
Luzhou Lingang Industrial Construction Co., Ltd.	Engineering construction services		1,895,073.13
Luzhou Lingang Siyuan Concrete Co., Ltd.	Procurement of raw materials		2,137,794.90
<b>Total</b>		<b>3,895,999.92</b>	<b>10,656,238.48</b>



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 1. Connected transactions for the purchase and sale of goods, provision and receipt of services (Continued)

###### (2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Amount for the year	Amount for previous year
Luzhou Aviation Development Investment Group Co., Ltd.	Household installation	15,751,259.27	
Luzhou Lingang Industrial Development Co., Ltd.	Household installation	10,720,116.54	
Luzhou Xinglu Jutai Construction Company Limited Jiangyang Branch	Household installation	6,199,766.04	
Luzhou City Xinglu Investment Group Co., Ltd.	Household installation	4,320,813.61	398,058.25
Luzhou Yunlong Airport Development Co., Ltd.	Household installation	1,725,264.08	
Luzhou Lingang Investments Group Co., Ltd.	Household installation	1,667,104.70	21,821,727.25
Luzhou Laojiao Co., Ltd.	Household installation	1,019,929.13	
Luzhou Xinglu Jutai Construction Company Limited	Household installation	799,425.98	
Luzhou Jiaotou Group Car Station Construction Co., Ltd.	Household installation		138,782.52
Luzhou Lingang Industrial Construction Co., Ltd.	Sporadic construction		19,710.68
Luzhou Lingang Investment Group Co., Ltd.	Sporadic construction		15,708.74
Luzhou Jiangnan New District Construction and Investment Co., Ltd.	Sporadic construction		13,178.08
Luzhou Xinglu Environmental Logistics Co., Ltd.	Sporadic construction		3,088.25
Total		<u>42,203,679.35</u>	<u>22,410,253.77</u>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 1. Connected transactions for the purchase and sale of goods, provision and receipt of services (Continued)

###### (2) Sale of goods/rendering of service (Continued)

Related party	Particulars of related party transactions	Amount for the year	Amount for previous year
Luzhou Lingang Industrial Construction Co., Ltd.	Sporadic construction		19,710.68
Luzhou Lingang Investments Group Co., Ltd.	Sporadic construction		15,708.74
Luzhou Jiangnan New District Construction and Investment Co., Ltd.	Sporadic construction		13,178.08
Luzhou Xinglu Environmental Logistics Co., Ltd.	Sporadic construction		3,088.25
<b>Total</b>		<b>62,194,221.35</b>	<b>34,789,882.77</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 2. Related party guarantees

###### (1) As guarantor

The Company and the Company's subsidiaries provide guarantees to each other and the corresponding guarantee information as of 31 December 2021 is as follows:

Guarantor	Guarantee	Guarantee amount (RMB'0000)
The Company and its subsidiaries	Subsidiaries	56,769.99
Subsidiaries	The Company	58,580.58

###### (2) As guarantee

Guarantor	Guaranteed amount	Start date	Due date	Has the guarantee been fulfilled
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	34,000,000.00	2019-1-18	2027-1-17	No

*Note 1:* On 18 January 2019, Luzhou Fanxing Environmental Development Co., Ltd. and Luzhou Rural Commercial Bank Co., Ltd. executed a fixed asset loan contract in the amount of RMB49 million, which was used for the construction of the project of "Construction of rural and village sewage treatment facilities in Jiang Yang District, Luzhou City". The interest rate of the loan is fixed at 7% per annum and this interest rate will remain unchanged during the term of the loan, the term of the loan is 96 months and is guaranteed jointly and severally by Luzhou Xinglu Financing Guarantee Group Co., Ltd., the balance of the long-term loan as of 31 December 2021 was RMB34,000,000.00.

##### 3. Related party funds borrowings: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 4. Associated leases

Related parties	Content of related transactions	Amount for the year	Amount for previous year
Luzhou City Xinglu Investment Group Co., Ltd.	Land leasing fees	2,600,000.00	
Luzhou City Xinglu Assets Management Co., Ltd.	Housing Rental	564,704.32	607,404.32
<b>Total</b>		<b>3,164,704.32</b>	<b>607,404.32</b>

##### 5. Transfer of assets and restructuring of debts of related parties

- (1) At the 49th Meeting of the first session of the Board of the Company held on 9 December 2021, the Company considered and passed the “Resolution on the Consideration and Approval of the Assignment of Land Related Transaction of Xinglu Group by Xinglu Wastewater”, in which Xinglu Wastewater was assigned the land for public facilities of Luzhou City Xinglu Investment Group Co., Ltd. with the real estate certificate no. of Lushi State Administration (2010) No. 29291. On 24 December 2021, the parties entered into a land use right transfer agreement for a total area of 49,679.76 sq.m. for a consideration of RMB30,801,452.00. As of the date of this report, the transfer of the land is still in process and the corresponding transfer payment has not yet been paid.
- (2) At the 47th Meeting of the first session of the Board of the Company held on 27 August 2021, the Company considered and passed the “Resolution on the Consideration of the Proposed Transfer of Equity Interests in the Communication Investment Group by Xing Luzhou Water Company at Appraised Value”, in which the Company transferred 0.02% of its equity interest in Luzhou Communication Investment Group Co., Ltd. (the “Communication Investment Group”) (a total of 928,600 shares) to Luzhou City Xinglu Investment Group Co., Ltd.. Yinxin Assets Appraisal Co., Ltd. conducted an appraisal of the value of the entire equity interest in Communication Investment Group and issued an asset appraisal report entitled “Yinxin Ping Bao Zi (2021) Shanghai No. 2161” on 12 August 2021. The Company transferred 0.02% of its equity interest in Communication Investment Group at an appraised value of RMB1.1936 per share (a total of 928,600 shares) for consideration of RMB1,108,376.96. As of December 31, 2021, the transfer amount has been recovered and the transfer of the equity interest has been completed and settled.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 6. Directors, Supervisors and staff emoluments

1. Details of the emolument of the Directors and Supervisors for the year are as follows

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total	Remarks
Zhang Qi	Executive Director, chairman of the Board	184,117.89	81,400.80		274,211.37		539,730.06	
Liao Xingyue	Executive Director, general manager	189,153.49	81,400.80		283,011.37		553,565.66	
Wang Junhua	Executive Director, deputy general manager	152,368.28	74,617.40		227,903.37		454,889.05	Resigned as executive Director and deputy general manager of the Company on 12 November 2021
Chen Bing	Non-executive Director							
Xu Yan	Non-executive Director							Ceased to be a non-executive Director on 4 March 2022
Xie Xin	Non-executive Director							Ceased to be a non-executive Director on 4 March 2022
Gu Ming'an	Independent non-executive Director	84,000.00					84,000.00	Ceased to be an independent non-executive Director on 4 March 2022
Lin Bing	Independent non-executive Director	84,000.00					84,000.00	Ceased to be an independent non-executive Director on 4 March 2022
Cheng Hok Kai, Frederick	Independent non-executive Director	100,000.00					100,000.00	Ceased to be an independent non-executive Director on 4 March 2022

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 6. Directors, Supervisors and staff emoluments (Continued)

1. Details of the emolument of the Directors and Supervisors for the year are as follows (Continued)

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total	Remarks
Qu Mei	Chairman of the Supervisory Committee							Ceased to be the chairman of the Supervisory Committee on 4 March 2022
Xu Ke	Supervisor							Ceased to be a supervisor on 4 March 2022
Huang Mei	Employee supervisor	165,517.49	81,400.80		227,903.37		474,821.66	Ceased to be an employee supervisor on 4 March 2022
Xiang Min	Employee supervisor	173,463.57	81,400.80		97,314.03		352,178.40	
Zhu Yuchuan	Employee supervisor	145,032.00	81,400.80		89,950.72		316,383.52	Ceased to be an employee supervisor on 4 March 2022
Xuan Ming	External supervisor	50,400.00	50,400.00					Ceased to be an external supervisor on 4 March 2022
Xiong Hua	External supervisor	50,400.00					50,400.00	
Total		1,378,452.72	481,621.40		1,200,294.23		3,060,368.35	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 6. Directors, Supervisors and staff emoluments (Continued)

1. Details of the emolument of the Directors and Supervisors for the year are as follows (Continued)

Details of the emolument of the Directors and Supervisors for the previous year are as follows

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total	Remarks
Zhang Qi	Executive Director, chairman of the Board	143,637.71	43,175.68		280,350.00		467,163.39	
Liao Xingyue	Executive Director, general manager	148,148.20	43,175.68		296,600.00		487,923.88	
Wang Junhua	Executive Director, deputy general manager	128,251.65	43,175.68		287,400.00		458,827.33	Resigned as executive Director and deputy general manager of the Company on 12 November 2021
Chen Bing	Non-executive Director							
Xu Yan	Non-executive Director							Ceased to be a non-executive Director on 4 March 2022
Xie Xin	Non-executive Director							Ceased to be a non-executive Director on 4 March 2022
Gu Ming'an	Independent non-executive Director	84,000.00					84,000.00	Ceased to be an independent non-executive Director on 4 March 2022
Lin Bing	Independent non-executive Director	84,000.00					84,000.00	Ceased to be an independent non-executive Director on 4 March 2022
Cheng Hok Kai, Frederick	Independent non-executive Director	100,000.00					100,000.00	Ceased to be an independent non-executive Director on 4 March 2022

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 6. Directors, Supervisors and staff emoluments (Continued)

1. Details of the emolument of the Directors and Supervisors for the year are as follows (Continued)

Details of the emolument of the Directors and Supervisors for the previous year are as follows (Continued)

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total	Remarks
Qu Mei	Chairman of the Supervisory Committee							Ceased to be the chairman of the Supervisory Committee on 4 March 2022
Xu Ke	Supervisor							Ceased to be a supervisor on 4 March 2022
Huang Mei	Employee supervisor	139,027.30	43,175.68		237,050.00		419,252.98	Ceased to be an employee supervisor on 4 March 2022
Xiang Min	Employee supervisor	161,924.02	43,175.68		96,113.00		301,212.70	
Zhu Yuchuan	Employee supervisor	148,502.25	43,175.00		85,775.00		277,452.25	Ceased to be an employee supervisor on 4 March 2022
Xuan Ming	External supervisor	50,400.00					50,400.00	Ceased to be an external supervisor on 4 March 2022
Xiong Hua	External supervisor	50,400.00					50,400.00	
Total		1,238,291.13	259,053.40		1,283,288.00		2,780,632.53	



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related party transactions (Continued)

##### 6. Directors, Supervisors and staff emoluments (Continued)

##### 2. Breakdown of the five highest paid individuals for the year

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total
Zhang Qi	Executive Director, chairman of the Board	184,117.89	81,400.80		274,211.37		539,730.06
Liao Xingyue	Executive Director, general manager	189,153.49	81,400.80		283,011.37		553,565.66
Chen Yongzhong	Secretary to the Board	166,917.49	81,400.80		274,503.37		522,821.66
Huang Mei	Employee supervisor, chairman of the Labour Union	165,517.49	81,400.80		227,903.37		474,821.66
Wang Junhua	Executive Director, deputy general manager	152,368.28	74,617.40		227,903.37		454,889.05
Total		858,074.64	400,220.60		1,287,532.85		2,545,828.09

##### Breakdown of the five highest paid individuals for the previous year

Name	Position	Salary and allowance	Social insurance, housing fund and pensions	Corporate annuities	Bonus	Dividend payment	Total
Zhang Qi	Executive Director, chairman of the Board	143,637.71	43,175.68		280,350.00		467,163.39
Liao Xingyue	Executive Director, general manager	148,148.20	43,175.68		296,600.00		487,923.88
Wang Junhua	Executive Director, deputy general manager	128,251.65	43,175.68		287,400.00		458,827.33
Chen Yongzhong	Secretary to the Board	129,895.43	43,175.68		292,550.00		465,621.11
Ouyang Peng	Chief financial officer	136,497.05	43,175.68		248,600.00		428,272.73
Total		686,430.04	215,878.40		1,405,500.00		2,307,808.44

During the Reporting Period, none of the Directors, Supervisors or any of the non-Director and non-Supervisor highest paid individuals waived or agreed to waive any remuneration and no emoluments were paid by the Group to the Directors, Supervisors or any of the non-Director and non-Supervisor highest paid individuals as an inducement to join the Group or as compensation for resignation.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (3) Receivables from and payables to related parties

##### 1. Receivables

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Accounts receivable	Luzhou City Xinglu Investment Group Co., Ltd.	4,450,438.00	222,521.90		
Accounts receivable	Luzhou Aviation Development Investment Group Co., Ltd.	801,034.77	40,051.74		
Accounts receivable	Luzhou Xinglu Jutai Construction Company Limited Jiangyang Branch	527,504.33	26,375.22		
Accounts receivable	Luzhou Lingang Investments Group Co., Ltd.	144,531.80	13,736.34	194,331.80	9,716.59
Accounts receivable	Luzhou Xinglu Environmental Logistics Co., Ltd.	166,250.00	8,312.50		
Accounts receivable	Luzhou Jiaotou Group Car Station Construction Co., Ltd.	56,819.00	2,840.95		
Accounts receivable	Luzhou Jiaotou Group Asset Operating Management Co., Ltd.			1,000.00	50.00
<b>Total of accounts receivable</b>		<b>6,146,577.90</b>	<b>313,838.65</b>	<b>195,331.80</b>	<b>9,766.59</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (3) Receivables from and payables to related parties (Continued)

##### 1. Receivables (Continued)

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Other receivables	Sichuan Xiangjiaba Irrigation District Project Leadership Office (responsible for the preparation and establishment of the Xiangjiaba Irrigation District Development Company)	700,400.00	700,400.00	700,400.00	700,400.00
Other receivables	Luzhou Xuxing Construction Industry Co., Ltd.			300,000.00	15,000.00
Other receivables	Luzhou City Xinglu Investment Group Co., Ltd.	18,680.00	934.00		
<b>Total of other receivables</b>		<b>719,080.00</b>	<b>701,334.00</b>	<b>1,000,400.00</b>	<b>715,400.00</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (3) Receivables from and payables to related parties (Continued)

##### 2. Payables

Item	Related party	Closing balance	Opening balance
Accounts payable	Luzhou City Xinglu Investment Group Co., Ltd.	2,600,000.00	
Accounts payable	Luzhou Xuxing Construction Industry Co., Ltd.		129,720.75
<b>Total of accounts payable</b>		<b>2,600,000.00</b>	<b>129,720.75</b>
Contractual liabilities	Luzhou Parking Lot Infrastructure Construction Investment Co., Ltd.		5,000.00
Contractual liabilities	Luzhou Jiaotou Group Asset Operating Management Co., Ltd.	4,970.02	
Contractual liabilities	Luzhou Naxixing Gas Co., Ltd.	576.08	576.08
Contractual liabilities	Luzhou Jiangyang District Public Transportation Co., Ltd.		875.00
<b>Total of contractual liabilities</b>		<b>5,546.10</b>	<b>6,451.08</b>
Other payables	Luzhou Xinglu Property Management Co., Ltd.	1,055,892.98	1,239,205.24
Other payables	Luzhou Lingang Investments Group Co., Ltd.	579,162.40	
Other payables	Luzhou Lingang Industrial Development Co., Ltd.	552,086.00	
Other payables	Luzhou Xinglu Jutai Construction Company Limited Jiangyang Branch	319,288.00	
Other payables	Luzhou Xinglu Jutai Construction Company Limited	15,303.28	
Other payables	Luzhou Xinglu Environmental Logistics Co., Ltd.	10,915.90	
Other payables	Luzhou Cultural Tourism Tianyi Culture Media Co., Ltd.	6,902.00	
Other payables	Hejiang Xingyan Natural Gas Co., Ltd.	2,000.00	1,674.18
<b>Total other payables</b>		<b>2,541,550.56</b>	<b>1,240,879.42</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

**12.** Share-based payments: None.

### 13. COMMITMENTS

**1.** As of 31 December 2021, the Group do not have any significant commitment.

#### **2. Contingent liabilities arising from pending litigations and arbitration**

##### **① Litigation Matters in Contract Disputes of Fanxing Environmental**

On 19 July 2017, in the course of performance of the Cooperation Agreement for Wastewater Treatment Equipment Supply and Installation in the Townships and Rural Areas in Luzhou City signed between Fanxing Environmental, a subsidiary of the Company and Sichuan Changjiang Engineering Crane Co., Ltd. (四川長江工程起重機有限責任公司) (“Changqi Company”). The equipment provided by Changqi Company failed to complete the commissioning on time and to meet the production target, and the two parties had repeatedly communicated but failed to reach agreement. On 28 October 2020, China SINOMACH Heavy Industry Corporation, the controlling shareholder of Changqi Company filed a bankruptcy petition with the Luzhou Municipal Intermediate People’s Court to liquidate the company due to its inability to pay off its debts as they fall due. On 19 November 2020, the Luzhou Intermediate People’s Court ruled that the bankruptcy of Sichuan Changjiang Engineering Crane Co., Ltd. was accepted for liquidation. As Changqi Company has entered into bankruptcy and liquidation, its obligations under the above equipment supply and installation agreement, warranty obligations, after-sales services, financial assessment matters, etc. could no longer be performed and accordingly Fanxing Environmental did not continue to pay the final payment under the agreement.

In March 2021, Changqi Company and its bankruptcy administrator (the “plaintiff”) sued Fanxing Environmental on behalf of Changqi Company in the Luzhou Intermediate People’s Court with the following claims:

“1. To rule the defendant to pay the plaintiff the sum of RMB42,821,100; 2. to rule the defendant to pay the plaintiff liquidated damages of RMB17,152,580.2; 3. To rule the defendant to bear the costs of the proceedings.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 13. COMMITMENTS (Continued)

#### 2. Contingent liabilities arising from pending litigations and arbitration (Continued)

##### ① *Litigation Matters in Contract Disputes of Fanxing Environmental (Continued)*

The case has not yet been concluded and the Company's preliminary judgement, in conjunction with the advice of its lawyers, is that the plaintiff has not yet completed its financial assessment of the equipment for which it is suing and cannot determine the final price of the equipment, and therefore is not yet in a position to pay. At the same time, as the equipment provided by the plaintiff did not complete the commissioning on time, it failed to meet the standard and reach production, and has not yet completed the acceptance, the prerequisites for the payment of equipment are not yet available. On the contrary, the equipment provided by the plaintiff had to be repaired and modified in order to achieve the contractual objective of reaching the target and production, and the relevant costs should also be borne by the plaintiff. Therefore, the Company is of the opinion that there is no breach of contract by Fanxing Environmental and it is highly unlikely that the Company will pay liquidated damages.

As of 31 December 2021, in addition to the matters described in ① above, the Group is involved in a number of smaller litigations in the ordinary course of business. However, the Group does not believe that any liabilities arising from these minor litigations would have a material adverse effect on the Group's financial position or results of operations.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 14. COMMITMENTS

As of 31 December 2021, the Group had no material commitments.

### 15. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

#### 1. Profit distribution

On 30 March 2022, the second meeting of the second session of the Board of the Company in relation to the proposed distribution of profit for the year 2021 was as follows: Based on the Company's total share capital of 859,710,000.00 shares at the end of 2021, a cash dividend of RMB0.05 (including tax) per share will be paid, resulting in a total cash payment of RMB42,985,500.00. The proposal is subject to the approval of the shareholders at a general meeting.

- On 24 March 2022, the Company announced the coupon rate adjustment for 2022 for the 2019 public offering of corporate bonds (Phase I) (hereinafter referred to as "19 Lu Water 01"). The coupon rate of 19 Lu Water 01 is 5.99% for the first 3 years of its duration (26 April 2019 to 25 April 2022) and at the end of the third year of its duration, the Company has elected to reduce the coupon rate, i.e. the coupon rate of the bonds is adjusted to 3.70%. It is fixed for the fourth to fifth year of its life (26 April 2022 to 25 April 2024). The bonds bear simple interest on an annual basis without compound interest.

As of the date of this report, apart from the above, there are no other significant post balance sheet events for the Company.

### 16. OTHER SIGNIFICANT EVENTS

#### 1. Employee benefits

##### **(1) Contributions to short-term employee benefits and defined contribution pension schemes**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution pension schemes and the cost of non-monetary benefits are accrued over the period in which the staff member provides the relevant service. Any delay in payment or settlement would have a material impact. These amounts are stated at present value.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 16. OTHER SIGNIFICANT EVENTS (Continued)

#### 1. Employee benefits (Continued)

- (2) The Group's defined contribution pension schemes comprise a social security scheme and an annuity scheme.**

##### *Social basic pensions*

In accordance with the relevant Chinese regulations, the Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. The above contributions to the social basic pension are credited to current profit or loss on an accrual basis, and the Company will not be able to apply the sums so paid. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them.

##### *Annuity scheme*

As of 31 December 2021, the Group has not established a corporate pension fund and implemented an annuity scheme.

#### 2. Segment information

- (1)** Basis of determination of reportable segments and accounting policies: The Group determines operating segments based on internal organisational structure, management requirements and internal reporting systems, and determines reportable segments based on operating segments. For management purposes, the Group has identified three reportable segments based on the types of services and products and the scale of development of each business segment as follows.



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 16. OTHER SIGNIFICANT EVENTS

#### 2. Segment information (Continued)

##### (2) Financial information on reportable segment

###### Segment financial information for 2021

Item	Tap water segment	Wastewater segment	Others	Offset	Total
Revenue	876,424,020.46	473,731,683.29	19,942,230.07		1,370,097,933.82
Including: Revenue from external transactions	876,424,020.46	473,731,683.29	19,942,230.07		1,370,097,933.82
Revenue from intra-segment transactions					
Operating costs	499,336,961.61	285,349,111.95	16,818,098.87		801,504,172.43
Cost offset					
Expenses for the period	185,532,796.04	60,345,400.38	799,385.62		246,677,582.04
Operating profit	172,553,850.27	124,410,641.45	1,251,798.84		298,216,290.56
Total assets	5,295,014,471.26	2,421,248,081.38	34,512,818.87	(677,459,108.43)	7,073,316,263.08
Total liabilities	3,191,922,259.66	1,211,495,415.95	15,433,628.81	(6,556,191.49)	4,412,295,112.93

###### Segment financial information for 2020

Item	Tap water segment	Wastewater segment	Others	Offset	Total
Revenue	773,155,830.02	421,537,483.09	10,785,601.26		1,205,478,914.37
Including: Revenue from external transactions	773,155,830.02	421,537,483.09	10,785,601.26		1,205,478,914.37
Revenue from intra-segment transactions					
Operating costs	416,006,029.51	251,125,006.60	9,597,238.13		676,728,274.24
Cost offset					
Expenses for the period	156,726,757.39	49,608,776.68	608,360.01		206,943,894.08
Operating profit	172,528,885.50	131,093,429.49	274,270.46		303,896,585.45
Total assets	5,099,843,227.37	2,220,083,742.02	24,083,470.42	(675,474,734.58)	6,668,535,705.23
Total liabilities	3,114,291,107.64	1,094,001,852.90	6,201,570.20	(4,280,017.60)	4,210,214,513.14

#### 3. Other material transactions and matters affecting investors' decisions: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

#### 1. Accounts receivable

##### (1) Accounts receivable as shown by provision for bad debts

Category	Book value		Closing balance		Book value
	Amount	%	Amount	%	
Separate provision for bad debt	1,683,073.80	1.12	1,683,073.80	100.00	
Provision for bad debts on a group basis	148,641,533.87	98.88	12,666,514.11	8.52	135,975,019.76
Including: Provision for bad debts based on a combination of credit risk characteristics	142,733,455.74	94.95	12,666,514.11	8.87	130,066,941.63
Grouping of related parties in the scope of consolidation	5,908,078.13	3.93			5,908,078.13
<b>Total</b>	<b>150,324,607.67</b>	<b>100.00</b>	<b>14,349,587.91</b>		<b>135,975,019.76</b>

(Continued)

Category	Book value		Opening balance		Book value
	Amount	%	Amount	%	
Separate provision for bad debt					
Provision for bad debts on a group basis	124,442,330.41	100.00	6,649,348.22	5.34	117,792,982.19
Including: Provision for bad debts based on a combination of credit risk characteristics	99,149,791.90	79.68	6,649,348.22	6.71	92,500,443.68
Grouping of related parties in the scope of consolidation	25,292,538.51	20.32			25,292,538.51
<b>Total</b>	<b>124,442,330.41</b>	<b>100.00</b>	<b>6,649,348.22</b>		<b>117,792,982.19</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 1. Accounts receivable (Continued)

##### (1) Accounts receivable as shown by provision for bad debts (Continued)

###### 1) Separate provision for bad debt

Name	Book value	Closing balance		Reason for provision
		Provision for bad debts	(%)	
Huaxi Hechun Yaocheng Property (Luzhou) Co. Ltd.	1,683,073.80	1,683,073.80	100.00	Abnormalities on Company operation

###### 2) Provision for bad debts on a group basis

Ageing	Closing balance		
	Book value	Provision for bad debts	(%)
Within one year	99,146,182.26	4,957,309.11	5.00
1 to 2 years	33,566,836.90	3,356,683.69	10.00
2 to 3 years	2,716,688.43	543,337.69	20.00
3 to 4 years	6,968,132.32	3,484,066.16	50.00
4 to 5 years	52,491.90	41,993.52	80.00
Over 5 years	283,123.93	283,123.94	100.00
<b>Total</b>	<b>142,733,455.74</b>	<b>12,666,514.11</b>	

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 1. Accounts receivable (Continued)

##### (2) Accounts receivable shown by ageing analysis

Ageing	Closing balance
Within 1 year (inclusive)	106,647,307.43
1 to 2 years	33,656,863.66
2 to 3 years	2,716,688.43
3 to 4 years	6,968,132.32
4 to 5 years	52,491.90
Over 5 years	283,123.94
<b>Total</b>	<b>150,324,607.67</b>

##### (3) Provision for bad debts for Accounts receivable for the year

Category	Opening balance	Provision	Changes during the year			Closing balance
			Recoveries or reversals	Write-off	Other	
Provision for bad debts	6,649,348.22	7,700,239.69				14,349,587.91

##### (4) Accounts receivable actually written off during the year: None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 1. Accounts receivable (Continued)

##### (5) Top five accounts receivable by debtor as at the end of the year

The total top five accounts receivable by debtor as at the end of the year amounted to RMB67,769,201.71, accounting for 45.08% of the closing balance of accounts receivable. A provision for bad debts of RMB6,633,352.41 in total was made as at the end of the year.

##### (6) Accounts receivable subject to derecognition due to the transfer of financial assets: None.

#### 2. Other receivables

Item	Closing balance	Opening balance
Other receivables	171,049,448.42	106,723,699.13
Less: Provision for bad debts	3,582,331.59	2,540,278.76
<b>Total</b>	<b>167,467,116.83</b>	<b>104,183,420.37</b>

##### (1) Classification of other receivables by nature of the amount

Nature of the amount	Closing balance	Opening balance
Municipal financial subsidy funds for the Luzhou City "One Household, One Meter" Renovation Project	141,615,032.92	46,869,897.27
Transactions with related parties within the scope of consolidation	23,695,025.49	55,267,748.19
Payments withheld	777,304.85	1,215,467.42
Deposits, collateral	696,879.33	279,330.33
Staff transactions	105,061.83	95,161.75
Others	4,160,144.00	2,996,094.17
<b>Total</b>	<b>171,049,448.42</b>	<b>106,723,699.13</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 2. Other receivables (Continued)

##### (2) Provision for bad debts of other receivables

	First stage Expected credit loss in the next 12 months	Second stage Expected credit loss in the lifetime (without credit impairment)	Third stage Expected credit loss in the lifetime (with credit impairment)	Total
Balance as at 1 January 2021	2,540,278.76			2,540,278.76
During the year, the balance of other receivables as at 1 January 2021				
– transferred to second stage				
– transferred to third stage				
– reversed to second stage				
– reversed to first stage				
Provision for the year	1,042,052.83			1,042,052.83
Reversal for the year				
Written-off for the year				
Charge off for the year				
Other changes				
Balance as at 31 December 2021	3,582,331.59			3,582,331.59

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 2. Other receivables (Continued)

##### (3) Other receivables presented by ageing as follows

Ageing	Closing balance
Within 1 year (inclusive)	108,395,917.03
1 to 2 years	58,097,789.91
2 to 3 years	296,780.00
Over 3 years	4,258,961.48
Including: 3 to 4 years	92,863.16
4 to 5 years	166,356.00
Over 5 years	3,999,742.32
<b>Total</b>	<b>171,049,448.42</b>

##### (4) Provision for bad debts of other receivables

Category	Opening balance	Provision	Changes during the year			Closing balance
			Recoveries or reversals	Write-off	Other	
Provision for bad debts	2,540,278.76	1,042,052.83				3,582,331.59

##### (5) Other receivables actually written-off during the year

None.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 2. Other receivables (Continued)

##### (6) Top five other receivables by debtor as at the end of the year

Name of entity	Nature of the amount	Closing balance	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Luzhou Municipal Finance Bureau	Grants	141,615,032.92	Within 1 year, 1 to 2 years	82.79	
Weiyuan Water	Related party transaction	10,066,666.67	Within 1 year, 1 to 2 years	5.89	
Nanjiao Water	Related party transaction	6,939,964.13	Within 1 year	4.06	
BeijiaoWater	Related party transaction	3,237,922.52	Within 1 year, 1 to 2 years	1.89	
Crystal Trading	Related party transaction	3,020,106.67	Within 1 year	1.77	
<b>Total</b>		<b>164,879,692.91</b>		<b>96.39</b>	

##### (7) Receivables involving government grants

Name of entity	Grants	Closing balance	Ageing	Time	Amount expected to receive	Reference
Luzhou Municipal Finance Bureau	Luzhou City "One Household, One Meter" Renovation Project	141,615,032.92	Within 2 years	Subject to completion of costing of works	141,615,032.92	Lu City Government Office (2019) No. 14



## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 3. Long-term equity investments

##### (1) Classification of long-term equity investments

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year				Closing balance	Closing balance of provision for impairment
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit		
I. Joint ventures: None.									
II. Associates									
Sichuan Xiangjiaba Irrigation District Construction and Development Co., Ltd.	54,602,212.65			673,396.83					55,275,609.48
<b>Subtotal</b>	54,602,212.65			673,396.83					55,275,609.48
III. Subsidiaries									
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.	12,803,182.11							(12,803,182.11)	
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.	100,537,417.79								100,537,417.79
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd.	9,388,127.21								9,388,127.21
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.	33,904,920.25							(33,904,920.25)	
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.	94,072,759.54								94,072,759.54
Luzhou Sitong Tap Water Engineering Co., Ltd.	6,343,534.06								6,343,534.06
Luzhou Nanjiao Water Co., Ltd.	20,311,312.96								20,311,312.96
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.	969,729.13								969,729.13
Luzhou Xinglu Wastewater Treatment Co., Ltd.	442,199,192.98								442,199,192.98
Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.	37,570,000.00								37,570,000.00
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.	17,590,000.00								17,590,000.00

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021  
(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 3. Long-term equity investments (Continued)

##### (1) Classification of long-term equity investments (Continued)

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year				Closing balance	Closing balance of provision for impairment
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit		
Luzhou Xinglu Water (Group) Xinglu Water Co., Ltd.	6,000,000.00							6,000,000.00	
Luzhou Fanxing Environmental Development Co., Ltd.	117,000,000.00							117,000,000.00	
Leshan Xinglu Water Xinglu Environmental Protection Technology Co., Ltd.	36,483,900.00							36,483,900.00	
Leibo Xinglu Water Co., Ltd.	20,502,000.00							20,502,000.00	
Chengdu Qingbajiang Xinglu Water Co., Ltd.	34,676,700.00							34,676,700.00	
Dechang Xinglu Water Co., Ltd.	15,610,364.00							15,610,364.00	
<b>Subtotal</b>	<b>1,005,563,140.03</b>							<b>(46,708,102.36)</b>	<b>959,255,037.67</b>
<b>Total</b>	<b>1,060,565,352.68</b>			<b>673,396.83</b>				<b>(46,708,102.36)</b>	<b>1,014,530,647.15</b>

#### 4. Operating revenue and operating costs

##### (1) Operating revenue and operating costs

Item	Amount for the year		Amount for previous year	
	Revenue	Cost	Revenue	Cost
Principal operations	685,567,397.79	419,959,305.50	631,922,796.71	368,431,776.46
Other operations	17,855,548.68	3,488,395.46	24,680,221.35	4,287,403.00
<b>Total</b>	<b>703,422,946.47</b>	<b>423,447,700.96</b>	<b>656,603,018.06</b>	<b>372,719,179.46</b>

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### 17. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

#### 4. Operating revenue and operating costs (Continued)

##### (2) Income arising from the contract

<u>Contract classification</u>	<u>Amount for the year</u>
Classification by type of goods	
Including: Water supply business	304,576,899.14
Wastewater Treatment business	
Engineering business	380,990,498.65
Others	17,855,548.68
Classification by business area	
Including: Within Sichuan Province	703,422,946.47
Outside Sichuan Province	
<b>Total</b>	<b>703,422,946.47</b>

#### 5. Investment gain

<u>Item</u>	<u>Amount for the year</u>	<u>Amount for previous year</u>
Gain from long-term equity investment under the cost method		
Gain from long-term equity investment under the equity method	673,396.83	719,536.09
<b>Total</b>	<b>673,396.83</b>	<b>719,536.09</b>

### 18. APPROVAL OF FINANCIAL REPORT

This financial report was approved by the Board of the Company on 30 March 2022.

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT

#### 1. Breakdown of non-recurring profit or loss for the year

Item	Amount for the year	Notes
Profit or loss from disposal of non-current assets	1,288,304.88	
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's business and are received with fixed amounts or with fixed percentage in compliance with national unified policies)	34,711,804.28	
Capital occupation fees received from non-financial enterprises that are included in current profits or losses		
Gain arising under the circumstance where the investment cost for acquisition of subsidiaries, associates and joint ventures is lower than the fair value of the net assets attributable to the enterprise		
Gain or loss arising from non-monetary assets exchange		
Gain or loss arising from entrusted investment or entrusted asset management		
Asset impairment provided due to forced majeure (e.g. natural disasters)		
Gain or loss arising from debt restructuring		
Corporate restructuring expenses (e.g. staff placement costs and integration expenses)		
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date		
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of transactional financial assets, derivative financial assets, transactional financial liabilities and gain or loss from changes in fair values of derivative financial liabilities and investment gain from disposal of transactional financial assets, derivative financial assets, transactional financial liabilities and derivative financial liabilities and other investment in debt		
Reversal of impairment provision for accounts receivable and impairment provision for contract liabilities individually tested for impairment		
Gain or loss arising from entrusted loan		

## Notes to the Financial Statements (Continued)

From 1 January 2021 to 31 December 2021

(Unless otherwise expressly stated, amounts are denominated in RMB)

### SUPPLEMENTARY INFORMATION OF FINANCIAL REPORT (Continued)

#### 1. Breakdown of non-recurring profit or loss for the year (Continued)

Item	Amount for the year	Notes
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Effect on current profit or loss of one-off adjustment to current profit or loss as required by taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	7,614,526.39	
Other profit or loss items within the meaning of non-recurring profit or loss		
Subtotal	43,614,635.55	
Less: Effect of income tax	6,547,806.07	
Effect of minority interests (after tax)	1,980,368.69	
<b>Total</b>	<b>35,086,460.79</b>	—

#### 2. Return on net asset and earnings per share

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the parent company	10.07	0.2814	0.2814
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit or loss	8.67	0.2406	0.2406

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

30 March 2022