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

**瀘州市興瀘水務(集團)股份有限公司**

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

**(Stock code: 2281)**

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2020;  
AND CHANGE OF BUILDING NAME OF PRINCIPAL PLACE  
OF BUSINESS IN HONG KONG**

**FINANCIAL HIGHLIGHTS FOR 2020**

- Revenue amounted to approximately RMB2,521.9 million, representing an increase of approximately 22.0% from the year ended 31 December 2019.
- Profit for the year amounted to approximately RMB224.8 million, representing an increase of approximately 11.6% from the year ended 31 December 2019.
- Profit attributable to owners of the Company amounted to approximately RMB208.3 million, representing an increase of approximately 9.3% from the year ended 31 December 2019.
- Basic earnings per share amounted to approximately RMB0.24, representing an increase of approximately 9.1% from the year ended 31 December 2019.
- The Board recommended the payment of a final dividend of RMB0.06 per share (tax inclusive) for the year ended 31 December 2020.

The board (the “**Board**”) of directors (the “**Directors**”) of Luzhou Xinglu Water (Group) Co., Ltd.\* (the “**Company**” or “**we**”) is pleased to announce the consolidated annual results and financial position of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Period**”) together with comparative figures as follows:

# **I. FINANCIAL INFORMATION OF THE GROUP**

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

		For the year ended 31 December	
		2020	2019
	NOTES	RMB'000	RMB'000
Revenue	3		
Tap water supply		340,000	317,538
Wastewater treatment operating services		302,102	266,893
Interest income		91,522	55,835
Installation services		341,494	291,372
Construction and upgrade services of infrastructure		1,446,787	1,135,494
Total revenue		2,521,905	2,067,132
Cost of sales and services		(2,065,785)	(1,691,668)
Gross profit		456,120	375,464
Other income, expenses, gains and losses, net	5	43,735	36,879
Impairment losses under expected credit loss model, net of reversal		(4,965)	(1,346)
Distribution and selling expenses		(18,026)	(18,180)
Administrative expenses		(84,729)	(84,454)
Finance costs	6	(118,449)	(76,369)
Share of loss of an associate		(923)	–
Profit before tax		272,763	231,994
Income tax expense	7	(47,959)	(30,471)
Profit for the year		224,804	201,523

		For the year ended 31 December	
		2020	2019
	NOTES	RMB'000	RMB'000
<b>Other comprehensive (expense) income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income (before tax)		(386)	492
Deferred income tax on fair value loss (gain) on investments in equity instruments at fair value through other comprehensive income		96	(123)
Other comprehensive (expense) income for the year, net of income tax		(290)	369
Total comprehensive income for the year		224,514	201,892
Profit for the year attributable to:			
– Owners of the Company		208,348	190,591
– Non-controlling interests		16,456	10,932
		224,804	201,523
Total comprehensive income for the year attributable to:			
– Owners of the Company		208,058	190,960
– Non-controlling interests		16,456	10,932
		224,514	201,892
<b>EARNINGS PER SHARE (RMB)</b>			
– Basic	9	0.24	0.22

**(b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>For the year ended</b>	
		<b>31 December</b>	
		<b>2020</b>	<b>2019</b>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current Assets</b>			
Property, plant and equipment		<b>80,814</b>	56,663
Right-of-use assets		<b>83,717</b>	76,893
Contract assets		<b>210,881</b>	181,203
Investment properties		<b>14,323</b>	12,173
Goodwill		<b>25,278</b>	25,278
Intangible assets	10	<b>3,511,312</b>	2,714,174
Equity instruments at fair value through other comprehensive income		<b>1,854</b>	57,765
Interest in an associate		<b>54,602</b>	–
Prepayment and other receivables		<b>42,696</b>	14,526
Receivables under service concession arrangements	10	<b>1,629,149</b>	1,146,359
Deferred tax assets		<b>28,964</b>	29,925
		<b>5,683,590</b>	4,314,959
<b>Current Assets</b>			
Inventories		<b>33,825</b>	45,351
Receivables under service concession arrangements	10	<b>30,147</b>	22,784
Trade receivables	11	<b>353,667</b>	269,913
Prepayments and other receivables		<b>53,926</b>	38,784
Prepaid income tax		<b>14,132</b>	9,726
Contract assets		<b>18,531</b>	18,209
Bank balances and cash		<b>1,036,193</b>	1,095,877
		<b>1,540,421</b>	1,500,644

		As at 31 December 2020	2019
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current Liabilities</b>			
Trade payables	12	58,988	54,134
Other payables		1,126,272	793,888
Tax liabilities		4,145	4,107
Borrowings		509,744	491,932
Lease liabilities		128	37
Provisions		13,253	3,657
Contract liabilities		277,693	226,379
Deferred income-government grants		13,768	–
		<u>2,003,991</u>	<u>1,574,134</u>
<b>Net Current Liabilities</b>		<u>(463,570)</u>	<u>(73,490)</u>
<b>Total Assets Less Current Liabilities</b>		<u><u>5,220,020</u></u>	<u><u>4,241,469</u></u>
<b>Capital and Reserves</b>			
Share capital	13	859,710	859,710
Reserves		<u>1,316,927</u>	<u>1,159,702</u>
Equity attributable to owners of the Company		2,176,637	2,019,412
Non-controlling interests		<u>156,295</u>	<u>108,066</u>
<b>Total Equity</b>		<u><u>2,332,932</u></u>	<u><u>2,127,478</u></u>

	As at	
	31 December	
	2020	2019
<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current Liabilities</b>		
Deferred tax liabilities	20,749	17,776
Borrowings	1,531,824	931,641
Lease liabilities	199	46
Provisions	355,073	293,781
Deferred income – government grants	281,717	173,849
Bonds payable	697,526	696,898
	<u>2,887,088</u>	<u>2,113,991</u>
	<u><b>5,220,020</b></u>	<u><b>4,241,469</b></u>

## 1. BASIS OF PREPARATION

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 1 “Presentation of Financial Statements” issued by the International Accounting Standards Board (the “IASB”) as well as with the applicable disclosures requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

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

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

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

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

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

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

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

### 3. REVENUE

#### Disaggregation of revenue from contracts with customers:

	For the year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Type of services</b>		
Tap water supply		
– Tap water	340,000	317,538
– Installation services	341,494	291,372
– Construction and upgrade services of tap water supply infrastructure	827,584	810,677
	<u>1,509,078</u>	<u>1,419,587</u>
Wastewater treatment		
– Operating services	302,102	266,893
– Construction and upgrade services of wastewater treatment infrastructure	619,203	324,817
	<u>921,305</u>	<u>591,710</u>
<b>Revenue from contracts with customers</b>	<u>2,430,383</u>	<u>2,011,297</u>
Wastewater treatment		
– Interest income on receivables under service concession arrangements	91,522	55,835
<b>Revenue</b>	<u>2,521,905</u>	<u>2,067,132</u>
<b>Timing of revenue recognition</b>		
At a point in time	642,102	584,431
Over time	1,788,281	1,426,866
	<u>2,430,383</u>	<u>2,011,297</u>
<b>Type of customer</b>		
Government	1,776,042	1,459,511
Non-government	654,341	551,786
	<u>2,430,383</u>	<u>2,011,297</u>

The above revenue was derived from the People's Republic of China ("PRC").



#### 4. SEGMENT INFORMATION

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

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

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

The tap water supply segment includes the Company and its certain subsidiaries providing tap water supply, installation, related construction and upgrade services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “Tap water supply segment”, because, in the opinion of the Directors, they have similar economic characteristics and provide tap water supply, installation, related construction and upgrade services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

In addition, the wastewater treatment segment includes certain subsidiaries of the Company providing wastewater treatment services and related construction and upgrade services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “Wastewater treatment segment“, because, in the opinion of the Directors, they have similar economic characteristics and provide wastewater treatment services and related construction and upgrade services in the PRC under similar production processes to similar classes of customers in the same regulatory environment.

## Segment revenue and results

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	<b>340,000</b>	317,538
– Installation services	<b>341,494</b>	291,372
– Construction and upgrade services of tap water supply infrastructure	<b>827,584</b>	810,677
– Inter-segment sales*		
– Tap water	<b>248</b>	162
Wastewater treatment		
– From external customers		
– Operating service	<b>302,102</b>	266,893
– Interest income on receivables under service concession arrangements	<b>91,522</b>	55,835
– Construction and upgrade services of wastewater treatment infrastructure	<b>619,203</b>	324,817
Elimination*	<b>(248)</b>	(162)
Revenue	<b>2,521,905</b>	2,067,132
<b>Segment results</b>		
– Tap water supply**	<b>115,805</b>	115,529
– Wastewater treatment	<b>108,999</b>	85,994
Profit after tax	<b>224,804</b>	201,523

\* Inter-segment sales for the years ended 31 December 2020 and 2019 were conducted at terms mutually agreed among the companies comprising the Group.

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

The accounting policies of the operating segments are the same as the Group's accounting policies.

## Segment assets and liabilities

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

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Segment assets</b>		
– Tap water supply	<b>4,379,161</b>	3,849,127
– Wastewater treatment	<b>2,894,850</b>	2,015,976
Elimination	<b>(50,000)</b>	(49,500)
	<hr/>	<hr/>
Consolidated total assets	<b><u>7,224,011</u></b>	<b><u>5,815,603</u></b>
<b>Segment liabilities</b>		
– Tap water supply	<b>3,106,153</b>	2,617,314
– Wastewater treatment	<b>1,834,926</b>	1,120,311
Elimination	<b>(50,000)</b>	(49,500)
	<hr/>	<hr/>
Consolidated total liabilities	<b><u>4,891,079</u></b>	<b><u>3,688,125</u></b>

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

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Value-added-tax (“VAT”) refunds ( <i>Note (a)</i> )	5,929	12,345
Deferred income in respect of government grants recognised	7,492	6,726
Bank interest income	6,380	4,321
Late charges on tap water users	3,085	3,631
Commission income on garbage fees collected for governmental bureau	2,414	2,038
Gains on disposal of property, plant and equipment, net	806	980
Rental income less outgoings ( <i>Note (b)</i> )	823	829
Foreign exchange gains (losses), net	60	192
Donations	(233)	(1,718)
Consultation fees ( <i>Note (c)</i> )	12,442	–
Gain on sale of equipments and materials	988	1,016
Water quality inspection fees	4,723	3,700
Others	(1,174)	2,819
	<b>43,735</b>	<b>36,879</b>

### Notes:

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

## 6. FINANCE COSTS

	For the year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	77,394	42,184
Interest on bonds payable	40,578	22,795
Interest on other borrowings	15,541	16,204
Unwinding of the discount	14,234	10,924
Interest on lease liabilities	6	1
	<u>147,753</u>	<u>92,108</u>
Less: Amount capitalised in qualified assets	<u>(29,304)</u>	<u>(15,739)</u>
	<u><b>118,449</b></u>	<u><b>76,369</b></u>

## 7. INCOME TAX EXPENSE

	For the year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current year	41,984	39,212
Underprovision in prior years	<u>1,195</u>	<u>624</u>
Current tax	<u>43,179</u>	<u>39,836</u>
Deferred tax – current year	(2,567)	(9,365)
Deferred tax – attributable to change in tax rate (Note (a))	<u>7,347</u>	<u>–</u>
Deferred tax	<u>4,780</u>	<u>(9,365)</u>
Total income tax recognised in profit or loss	<u><b>47,959</b></u>	<u><b>30,471</b></u>

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

Name of company	Applicable EIT rate	
	Year ended 31 December 2020	Year ended 31 December 2019
The Company ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市興瀘水務(集團)北郊水業有限公司(Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市興瀘水務(集團)合江水業有限公司(Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市興瀘水務集團江南水業有限公司(Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市興瀘水務(集團)納溪水業有限公司(Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市南郊水業有限公司(Luzhou Nanjiao Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
瀘州市四通自來水工程有限公司(Luzhou Sitong Tap Water Engineering Co., Ltd.) (“ <b>Sitong Engineering</b> ”)	<b>20% Note (c)</b>	15% <i>Note (a)</i>
瀘州市興瀘污水處理有限公司(Luzhou Xinglu Wastewater Treatment Co., Ltd.) (“ <b>Xinglu Wastewater Treatment</b> ”) <i>Note (a) and Note (b)</i>	<b>7.5% or 15%</b>	7.5% or 15%
瀘州市四通給排水工程設計有限公司(Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) (“ <b>Sitong Design</b> ”)	<b>20% Note (c)</b>	15% <i>Note (a)</i>
瀘州市興合水環境治理有限公司(Luzhou XingheWater Governance Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%
興瀘水務(集團)威遠清溪水務有限公司(XingheWater Weiyuan Qingxi Water Co., Ltd.) ( <i>Note (a)</i> )	<b>15%</b>	15%

Name of company	Applicable EIT rate	
	Year ended 31 December 2020	Year ended 31 December 2019
威遠城市供排水安裝工程有限公司 (Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.) ( <i>Note (a)</i> )	15%	15%
樂山市興瀘水務興嘉環保科技有 限公司 (Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.) (“ <b>Leshan Xingjia</b> ”) ( <i>Note (c)</i> )	20%	20%
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“ <b>Fanxing Environmental</b> ”) ( <i>Note (b)</i> )	0%	0%
敘永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd) (“ <b>Yongxing Water</b> ”) ( <i>Note (c)</i> )	20%	20%
德昌縣興瀘水務有限公司 (Dechang Xinglu Water Co., Ltd.) (“ <b>Dechang Water</b> ”) ( <i>Notes (c) and (d)</i> )	20%	N/A
雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd.) (“ <b>Leibo Water</b> ”) ( <i>Notes (c) and (d)</i> )	20%	N/A
瀘州市興瀘智慧水務科技有限責任公 司 (Zhihui Water Science and Technology Co., Ltd.) (“ <b>Zhihui Water</b> ”) ( <i>Notes (c) and (d)</i> )	20%	N/A

*Notes:*

- a. According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the years ended 31 December 2019 and 2020, the aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the years ended 31 December 2019 and 2020 accounted for more than 70% of their total revenue in these years. Therefore, these entities enjoy the preferential EIT rate of 15% in this year.

In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 31 December 2020.

- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant (“**Chengdong**”) and Chengnan Wastewater Treatment Plant (“**Chengnan**”), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a 50% reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rate of Chengdong and Chengnan is 7.5% for the years ended 31 December 2019 and 2020.

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, was also entitled to be exempted from EIT in respect of the income generated by it for the first to third years and allowed a 50% reduction in the fourth to sixth years beginning from the first year of commercial production and operation. Fanxing Environmental commenced production and operation in February 2019 and the EIT rate is 0% for the years ended 31 December 2019 and 2020.

- c. According to the Notice on Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Notice of the State Administration of Taxation No. 13 [2019]), Sitong Engineering, Sitong Design, Leshan Xingjia, Yongxing Water, Dechang Water, Leibo Water and Zhihui Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.
- d. Dechang Water, Leibo Water and Zhihui Water were established on 2 January 2020, 18 February 2020 and 22 January 2020, respectively.

## 8. DIVIDENDS

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

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



## 9. EARNINGS PER SHARE

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

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Profit for the year attributable to the owners of the Company ( <i>RMB'000</i> )	<b>208,348</b>	<b>190,591</b>
Weighted average number of ordinary shares issued ( <i>'000</i> )	<b>859,710</b>	<b>859,710</b>

No diluted earnings per share is presented for the years ended 31 December 2020 and 2019 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

## 10. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and right-of-use assets of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for periods up to 30 years (the “**Service Concession Period**”), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements or the infrastructure is transferred to the grantors at nil consideration at the end of the relevant service concession periods.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group’s practical ability to sell or pledge

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

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a contract asset (during construction phase) or a financial asset (receivable under a service concession arrangement) (upon completion of construction and commencement of operation) or a combination of such, as appropriate.

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

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2019	2,193,937
Acquisition of a subsidiary	7,579
Adjustment to previous contribution by a non-controlling equity owner of a subsidiary	(925)
Additions	<u>862,119</u>
At 31 December 2019	3,062,710
Additions	<u>928,578</u>
<b>At 31 December 2020</b>	<b><u>3,991,288</u></b>
<b>Accumulated amortisation</b>	
At 1 January 2019	(246,734)
Amortisation for the year	<u>(101,802)</u>
At 31 December 2019	(348,536)
Amortisation for the year	<u>(131,440)</u>
<b>At 31 December 2020</b>	<b><u>(479,976)</u></b>
<b>Carrying amounts</b>	
<b>At 31 December 2020</b>	<b><u>3,511,312</u></b>
At 31 December 2019	<u>2,714,174</u>

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume and fixed monthly payment guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements and are as follows:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Non-current portion	<b>1,629,149</b>	1,146,359
Current portion	<b>30,147</b>	22,784
	<b><u>1,659,296</u></b>	<u>1,169,143</u>
Expected collection schedule is analysed as follows:		
Within one year	<b>30,147</b>	22,784
More than one year, but not exceeding two years	<b>33,872</b>	24,519
More than two years, but not exceeding three years	<b>38,397</b>	25,802
More than three years, but not exceeding four years	<b>42,466</b>	27,158
More than four years, but not exceeding five years	<b>44,791</b>	28,619
Over five years	<b>1,469,623</b>	1,040,261
	<b><u>1,659,296</u></b>	<u>1,169,143</u>

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

## 11. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	357,922	271,608
Less: Allowance for credit losses	<u>(4,255)</u>	<u>(1,695)</u>
Total trade receivables	<u><b>353,667</b></u>	<u><b>269,913</b></u>

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

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

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

## 12. TRADE PAYABLES

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

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	44,378	42,204
Between 6 months and 12 months	3,823	4,463
Over 1 year	<u>10,787</u>	<u>7,467</u>
	<u><b>58,988</b></u>	<u><b>54,134</b></u>

The credit period on purchases are generally within 6 months.

### 13. SHARE CAPITAL

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning and end of the year	<u>859,710</u>	<u>859,710</u>
	<i>'000</i>	<i>'000</i>
Shares of RMB1 each		
– Domestic shares ( <i>note</i> )	644,770	644,770
– H shares	<u>214,940</u>	<u>214,940</u>
	<u>859,710</u>	<u>859,710</u>

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

## **II. MANAGEMENT DISCUSSION AND ANALYSIS**

### **(I) Industry Overview**

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

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

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

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

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

## **(II) Development Strategy and Outlook**

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

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

## **(III) Business Review**

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

As at the end of the Reporting Period, we operated twelve tap water plants and nine city wastewater treatment plants with a total treatment capacity of approximately 1.03 million tons per day. We also operated several wastewater treatment facilities in urban and rural areas.

### ***Tap Water Project***

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

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

### ***Wastewater Treatment Project***

As at the end of the Reporting Period, the Company owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 391,000 tons in aggregate and the average utilisation rate of wastewater treatment plants stood at 81.6%.

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

During the Reporting Period, we owned 135 wastewater treatment facilities in urban and rural areas of in three districts and two counties, namely Jiangyang district, Longma district, Naxi district, Xuyong county, Gulin county that have been put into operation successively, with a daily treatment capacity of approximately 34,000 tons.



## **(IV) Financial Review**

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

#### **1.1 Revenue**

Revenue of the Group increased by 22.0% from approximately RMB2,067.1 million for the year ended 31 December 2019 to approximately RMB2,521.9 million during the Reporting Period. The increase was mainly due to the increase in revenue from wastewater treatment infrastructure construction, upgrade services and installation services.

##### **1.1.1 Tap water supply**

###### **1.1.1.1 Sales of tap water**

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

#### 1.1.1.2 Installation services

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

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

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

from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the income herein.

## 1.1.2 Wastewater treatment

### 1.1.2.1 Operating services

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

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

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

#### 1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

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

## *1.2 Cost of Sales and Services*

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

### *1.2.1 Tap water supply*

#### *1.2.1.1 Sales of tap water*

The Group's cost of sales and services of tap water increased by 12.4% from approximately RMB261.6 million for the year ended 31 December 2019 to approximately RMB294.0 million during the Reporting Period. This was primarily due to the increase in tap water sales and infrastructure amortization as a result of commencement of operation of water supply pipe networks to meet water supply needs. Cost of sales and services from tap water supply operations accounted for 15.5% and 14.2% of our total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost generated from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decrease of the proportion of the cost herein.

#### *1.2.1.2 Installation services*

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

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

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

## 1.2.2 Wastewater Treatment

### 1.2.2.1 Operating services

The Group's cost of sales and services from sewage treatment operating services increased by 4.3% from approximately RMB202.8 million for the year ended 31 December 2019 to RMB211.6 million during the Reporting Period. Such increase was mainly because of a corresponding increase in operating costs resulting from an increase in treatment volume in wastewater. Cost of sales and services from wastewater treatment operating services accounted for 12.0% and 10.2% of our total cost of sales and services for the years ended



31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Xingjia project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost arising from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding decline of the proportion of the cost herein.

#### 1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services from construction and upgrade on sewage treatment infrastructure increased by 90.8% from approximately RMB324.4 million for the year ended 31 December 2019 to approximately RMB618.8 million during the Reporting Period. The primary reason for the increase was that the Group's construction of Erdaoxi Project Phase III and Xuyong Project Phase II, the addition of the new sites of Fanxing Environmental, and the establishment of the new wastewater treatment construction project of Qingbaijiang Water in December 2019. Such cost accounted for 19.2% and 30.0% of the total cost of sales and services for the years ended 31 December 2019 and 2020, respectively. During the Reporting Period, the construction of the Erdaoxi Phase III project of Xinglu Wastewater Treatment has been completed, and Xuyong Phase II project, Leshan Jiaying project, Qingbaijiang project, Fanxing project and Dechang project are all under construction. Therefore, the cost arising from the construction and upgrading of wastewater treatment infrastructure during the Reporting Period increased significantly, hence resulting in the corresponding increase of the proportion of the cost herein.

### 1.3 *Gross profit and gross profit margin*

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

### 1.3.1 Tap water supply

#### 1.3.1.1 Sales of tap water

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

#### 1.3.1.2 Installation services

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

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

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



### 1.3.2 Wastewater treatment

#### 1.3.2.1 Operating service

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

#### 1.3.2.2 Construction and upgrade on wastewater treatment infrastructure

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

### 1.4 *Other Income, Expenses, Gains and Losses, Net and Impairment loss (net of reversal)*

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

### *1.5 Distribution and Selling Expenses*

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

### *1.6 Administrative Expenses*

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

### *1.7 Finance Costs*

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

### *1.8 Income Tax Expense*

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

### *1.9 Profit after Tax and Profit after Tax Margin*

As a result of above, profit after tax of the Group increased by 11.6% from approximately RMB201.5 million for the year ended 31 December 2019 to approximately RMB224.8 million during the Reporting Period. The profit after tax margin decreased from 9.7% for the year ended 31 December 2019 to 8.9% during the Reporting Period.

## **2. Analysis of Key Items of Consolidated Statement of Financial Position**

### *2.1 Property, Plant and Equipment*

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

### *2.2 Intangible Assets*

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

### 2.3 *Receivables under Service Concession Arrangements*

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

### 2.4 *Inventories*

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) amounted to approximately RMB45.4 million and RMB33.8 million as at 31 December 2019 and 2020, respectively. The main reason for the decrease was that the Group reserved part of the water meter transformation materials for the general meter households in 2020 in accordance with the policy transformation demand at the end of 2019. During the Reporting Period, with the development of the water meter transformation project for the general meter households, the inventory decreased accordingly.

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

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

*Note:*

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

We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water and installation services and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. During the Reporting Period, the average inventory turnover date decreased from 26 days to 22 days for the year ended 31 December 2019. The decrease was mainly due to the strengthening of the Group's inventory management during the Reporting Period, which accelerated the turnover of inventory.

## 2.5 Trade Receivables

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

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

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

*Note:*

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

We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water, installation services in tap water supply operations and wastewater treatment fee in wastewater treatment operations. We believe excluding of revenue from our construction and upgrade services of infrastructure is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 78 days for the year ended 31 December 2019 to 104 days during the Reporting Period. The increase was mainly due to the delayed payment of wastewater treatment due to the outbreak of COVID-19, while we practically strengthened our management policy of recycled trading receivables.

## 2.6 Trade Payables

Our trade payables were approximately RMB54.1 million and RMB59.0 million as at 31 December 2019 and 2020, respectively.

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

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

*Note:*

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

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation services and waste water operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. The average turnover days of our trade payables decreased from 32 days for the year ended 31 December 2019 to 31 days during the Reporting Period, which was basically unchanged.

## 2.7 Trade and Construction Payables

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
Average trade payables and construction payables turnover days <sup>(1)</sup>	<b>145</b>	<b>102</b>

*Note:*

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

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

### **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 RMB1,036.2 million (at the end of 2019: approximately RMB1,095.9 million).



As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB2,041.6 million (at the end of 2019: RMB1,423.6 million), including bank and other borrowings, of which, approximately 55.6% of bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by equity attributable to owners of the Company divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 78.2% (at the end of 2019: 50.7%).

### **III. OTHER INFORMATION**

#### **(I) Employees and Remuneration Policy**

As at the end of the Reporting Period, the Group had 1,142 employees (at the end of 2019: 940). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB161.1 million (at the end of 2019: approximately RMB161.2 million). The remunerations and benefits, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continued to adjust the new model of salary packing system of the associates of the Company.

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

#### **(II) Initial Public Offering and Use of Proceeds from the Initial Public Offering**

The Company was listed on the Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with a value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. As at the end of the Reporting Period, HK\$399.04 million of the proceeds from the initial public offering had been used by the Group in the manner disclosed in the prospectus of the Company dated 21 March 2017 and approximately HK\$1.76 million of the proceeds had not yet been used.



Please refer to the table below for details:

<b>Use of proceeds</b>	<b>Amount <i>HK\$ million</i></b>	<b>Amount used <i>HK\$ million</i></b>	<b>Amount unused <i>HK\$ million</i></b>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	38.32	1.76
<b>Total</b>	<b>400.8</b>	<b>399.04</b>	<b>1.76</b>

### (III) Major Acquisitions and Investments

On 13 December 2019, the Company entered into agreement with Zhongrong investment and Construction Industry Co., Ltd.\* (中蓉投建實業有限公司) for the establishment of Qingbaijiang Water with a registered capital of RMB34,711,400. The business scope of Qingbaijiang Water includes wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The contribution payable by the Company was made on 6 January 2020.

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

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

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

#### **(IV) Pledges of the Group's Assets**

As at the end of the Reporting Period, there were mortgage bank borrowings of the Group that were secured by the operating concessions for global water supply projects in Jiangyang District, the equity interest of Fanxing Environmental held by the Company, the land-use rights owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, the charging right for wastewater treatment fees, the charging right for wastewater treatment projects of Fanxing Environmental in township and rural area in Jiangyang District, Luzhou City, and the charging right for wastewater treatment fees of Qingbaijiang Water.

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

#### **(V) Foreign Exchange Risks**

During the Reporting Period, when the Group carried out business in the PRC and received revenue and paid its costs/expenses in RMB, as at the end of the Reporting Period, the Group has unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognized net foreign exchange gains of approximately RMB60,000 during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

#### **(VI) Contingent Liabilities**

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

## **(VII) Significant Investment Held**

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB56.46 million (2019: approximately RMB57.77 million), which mainly represents the Group's equity investment of 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.\* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC.

## **(VIII) Events After the Reporting Period**

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

## **(IX) Final Dividend**

The Board proposed to distribute final dividends of RMB0.06 per share (tax inclusive) for the year ended 31 December 2020 (2019: RMB0.06 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Thursday, 8 July 2021 (the “**Record Date**”) (subject to the approval of Shareholders on the annual general meeting (the “**AGM**”) to be held on Friday, 11 June 2021), with the total amount being approximately RMB51,583,000. Once approved, the final dividends will be paid on or before Friday, 30 July 2021.

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.

Under the relevant tax rules and regulations of the PRC (collectively, the “**PRC Tax Law**”), the Company is required to withhold and pay EIT 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 of them.

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

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

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

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

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.

## **(X) Closure of Register of Members**

In order to determine the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Friday, 11 June 2021 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the AGM is Tuesday, 1 June 2021. In order to be qualified to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company’s registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Monday, 31 May 2021.

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Saturday, 3 July 2021 to Thursday, 8 July 2021 (both days inclusive), during which period no transfer of Shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Thursday, 8 July 2021. In order to be qualified to obtain final dividends, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company’s registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Friday, 2 July 2021.

## **(XI) Audit Committee**

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors, namely Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming’an, and a non-executive Director Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick serving as the chairperson of the committee. The primary responsibilities of our Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company’s website and the website of the 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.

## **(XII) Nomination and Remuneration Committee**

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

## **(XIII) Strategy Committee**

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

#### **(XIV) Change in Directors, Supervisors and Chief Executives' Information**

During the Reporting Period, there were no information changes in the Directors, supervisors and chief executives of the Company.

#### **(XV) 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 code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, (the “**Corporate Governance Code**”), and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

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

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



## **(XVI) Model Code for Securities Transactions by Directors and Supervisors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions of the Company by the Directors, the Company’s supervisors and employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities. The Company has made specific inquiries to all Directors and supervisors, and all Directors and supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period. In addition, during the Reporting Period, the Company was not aware of any non-compliance of the Model Code by the relevant employees of the Group.

## **(XVII) Directors’ and Supervisors’ Interests in Competing Business**

During the Reporting Period, to the best knowledge of the Board, none of the Directors and supervisors and 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.

## **(XVIII) Purchase, Sale or Redemption of Listed Securities of the Company**

During the Reporting Period, none of the Company or any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## **(XIX) Public Float**

Based on the public information of the Company and to the knowledge of the Board, at least 25% of the total issued share capital of the Company are held in public hands as at the date of annual results.

## **(XX) Others**

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

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



#### **IV. REVIEW OF ANNUAL RESULTS**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary results announcement have been agreed by the Group's auditor, Messrs Deloitte Touche Tohmatsu, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Messrs Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on this preliminary announcement.

#### **V. PUBLICATION OF THE ANNOUNCEMENT OF ANNUAL RESULTS AND THE ANNUAL REPORT**

This announcement of annual results for the year has been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the Company's website at [www.lzss.com](http://www.lzss.com). The annual report of the Group for the year ended 31 December 2020 will be dispatched to the Shareholders and released on the above websites of the Stock Exchange and the Company in due course.

## **VI. CHANGE OF BUILDING NAME OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

The Board hereby announces that the building name of the Company's principal place of business in Hong Kong has been changed from "Sunlight Tower" to "Dah Sing Financial Centre", therefore the principal place of business of the Company in Hong Kong would be updated as 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from 30 March 2021.

Saved for the change of the building name, the physical location of the Company's principal place of business in Hong Kong remains unchanged. The Company's website, telephone number and facsimile number remain unchanged.

By order of the Board  
**Luzhou Xinglu Water (Group) Co., Ltd.\***  
**Zhang Qi**  
*Chairman*

Luzhou, Sichuan Province, the PRC  
30 March 2021

*As at the date of this announcement, the Board consists of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Mr. Wang Junhua; (ii) three non-executive Directors, namely Mr. Chen Bing, Ms. Xu Yan and Mr. Xie Xin; and (iii) three independent non-executive Directors, namely Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick.*

\* For identification purposes only