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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 2021

FINANCIAL HIGHLIGHTS FOR 2021

- Revenue amounted to approximately RMB1,370.1 million, representing an increase of approximately 13.7% from the same period of 2020.
- Net profit amounted to approximately RMB261.0 million, which was basically in line with the same period of 2020.
- Net profit attributable to the owners of the parent company amounted to approximately RMB242.0 million, which was basically in line with the same period of 2020.
- Basic earnings per share amounted to approximately RMB0.28, which was basically in line with the same period of 2020.

PROFIT DISTRIBUTION PLAN OF 2021

- The Company proposes to distribute a final dividend of RMB0.05 (tax inclusive) per share for the year ended 31 December 2021 to shareholders whose names appear on the register of members of the Company on 11 July 2022 in cash, and calculated based on the total number of share capital of the Company as of 31 December 2021, being 859,710,000 shares. The total cash dividend to be distributed will amount to RMB42.99 million. The Company expects to complete the distribution of cash dividends on or before 29 July 2022. The above proposed distribution of final dividend is subject to the approval of the shareholders of the Company at the AGM.

The board (the “**Board**”) of directors (the “**Directors**”) of Luzhou Xinglu Water (Group) Co., Ltd.* (the “**Company**” or “**we**”) is pleased to announce the annual results and financial position of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021 (the “**Reporting Period**”) together with comparative figures as follows:

I. FINANCIAL INFORMATION OF THE GROUP

1. CONSOLIDATED INCOME STATEMENT

Currency: RMB’000

Items	2021	2020
1. Total operating revenue	1,370,098	1,205,479
Of which: Operating revenue	1,370,098	1,205,479
2. Total operating cost	1,078,179	915,461
Of which: Operating cost	801,504	676,728
Taxes and surcharges	29,997	31,788
Cost of sales	25,078	17,455
Management expenses	101,615	82,901
Finance costs	119,985	106,589
Add: Other revenue	34,509	22,252
Investment income (represented by a sign of “-” for loss)	673	720
Credit impairment loss (represented by a sign of “-” for loss)	-16,670	-4,288
Asset impairment loss (represented by a sign of “-” for loss)	-12,215	-4,814
Income from disposal of assets (represented by a sign of “-” for loss)	0	10
3. Operating profit (represented by a sign of “-” for loss)	298,216	303,897
Add: Non-operating revenue	9,427	4,599
Less: Non-operating expense	321	4,037
4. Total profit (represented by a sign of “-” for total loss)	307,322	304,459
Less: Income tax expense	46,347	43,032

Items	2021	2020
5. Net profit (represented by a sign of “-” for net loss)	260,975	261,427
(1) Classified by continuing operation	260,975	261,427
1. Net profit for continuing operation (represented by a sign of “-” for net loss)	260,975	261,427
(2) Classified by attribution of ownership	260,975	261,427
1. Net profit attributable to owners of the parent company (represented by a sign of “-” for net loss)	241,926	247,221
2. minority profit and loss (represented by a sign of “-” for net loss)	19,048	14,205
6. Other comprehensive income, net after tax	-599	-2,141
Other comprehensive income attributable to the owners of the parent company, net after tax	-599	-2,141
(1) Other comprehensive income that cannot be reclassified into profit or loss	-599	-2,141
1. Changes in fair value of investments in other equity instruments	-599	-2,141
7. Total comprehensive income	260,376	259,286
Total comprehensive income attributable to the shareholders of the parent company	241,327	245,081
Total comprehensive income attributable to minority shareholders	19,048	14,205
8. Earnings per share:		
(1) Basic earnings per share (RMB/share)	0.28	0.29
(2) Diluted earnings per share (RMB/share)	0.28	0.29

2. CONSOLIDATED BALANCE SHEET

Currency: RMB'000

Items	31 December 2021	31 December 2020
Current assets:		
Monetary funds	871,745	1,036,193
Bills receivable	2,699	1,950
Accounts receivable	486,059	345,244
Prepayments	19,787	16,480
Other receivables	148,145	52,105
Inventories	53,726	89,339
Contract assets	–	–
Other current assets	74,422	59,078
Total current assets	1,656,582	1,600,388
Non-current assets:		
Long-term receivables	5,594	195,653
Long-term debt investment	55,276	54,602
Investments in other equity instruments	21	1,854
Properties held for investment	3,143	3,281
Fixed assets	3,324,840	2,718,555
Construction in progress	318,004	924,067
Right-of-use assets	1,721	1,108
Intangible assets	1,387,876	978,078
Goodwill	28,139	28,139
Long-term deferred expenses	238,123	99,371
Deferred income tax assets	6,814	4,633
Other non-current assets	47,184	58,806
Total non-current assets	5,416,735	5,068,148
Total assets	7,073,316	6,668,536

Items	31 December 2021	31 December 2020
Current liabilities:		
Short-term borrowings	239,283	252,857
Accounts payable	539,837	651,877
Contract liabilities	194,029	257,951
Staff wages payable	47,331	40,210
Tax payable	26,855	26,541
Other payables	179,435	170,370
Of which: Interests payable	0	0
Non-current liabilities due within one year	927,385	250,138
Other current liabilities	1,968	1,487
	<hr/>	<hr/>
Total current liabilities	2,156,124	1,651,430
Non-current liabilities:		
Long-term borrowings	1,390,656	1,037,593
Debenture payables	0	697,547
Lease liabilities	1,298	261
Long-term payables	585,292	626,046
Long-term staff wages payable		
Estimated liabilities	4,452	2,327
Deferred income	268,555	188,646
Deferred Income tax liabilities	5,918	6,364
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Total non-current liabilities	2,256,171	2,558,784
	<hr/>	<hr/>
Total liabilities	4,412,295	4,210,215
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Items	31 December 2021	31 December 2020
Shareholders' equity:		
Share capital	859,710	859,710
Capital reserve	420,447	419,505
Other comprehensive income	-67	641
Special reserve	17,011	16,676
Surplus reserve	63,430	52,385
Undistributed profits	1,115,598	959,030
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Total shareholders' equity attributable to the parent company	2,476,129	2,307,946
Minority shareholders' equity	184,892	150,375
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Total shareholders' equity	2,661,021	2,458,321
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Total liabilities and shareholders' equity	7,073,316	6,668,536
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NOTES

1. Basis of preparation

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 Stock Exchange of Hong Kong Limited (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 will only adopt and prepare financial statements in accordance with the China Accounting Standards for Business Enterprises for the disclosure of results of the Company for the year ended 31 December 2021 and subsequent accounting periods, which will be disclosed in both PRC domestic and Hong Kong market. 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.

Basis of preparation

The Group’s financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises – Basic Standards” promulgated by the Ministry of Finance of the People’s Republic of China and the specific accounting standards, practice notes, interpretations and other relevant regulations as subsequently announced and revised (collectively “**ASBE**”), as well as the disclosure requirements of the Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (Revised in 2014) and relevant requirements of the China Securities Regulatory Commission, the Hong Kong Companies Ordinance and the Listing Rules the Hong Kong Stock Exchange (Note: Figures for 2020 in the consolidated financial statements have been restated and prepared in accordance with the ASBE).

These financial statements have been prepared on a going concern basis. The Group assessed its ability to continue as a going concern for the 12 months subsequent to end of the Reporting Period, and found no events or circumstances that may cast significant doubts upon it.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The specific accounting policies and accounting estimation prepared by the Group based on actual production and operation characteristics include operating cycles, recognition and measurement on bad debt provisions of receivables, classification and depreciation method of fixed assets, amortization of intangible assets, recognition of estimated liabilities, recognition and measurement of revenues, etc.

Statement of compliance with the ASBE

The financial statements prepared by the Company comply with the requirements of the ASBE and give a true and fair view of the financial position, operating results, cash flows and other relevant information of the Company as well as the Group.

Accounting period

The accounting period of the Group is from 1 January to 31 December of each calendar year.

Operating cycle

The accounting period of the Group is from 1 January to 31 December of each calendar year.

Reporting currency

The Group uses Renminbi as the local currency of accounts.

2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	For the year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Type of goods		
– Water supply business	385,811	348,533
– Wastewater treatment business	469,257	419,418
– Engineering business	469,019	401,679
– Others	46,012	35,849
	<hr/>	<hr/>
Revenue	<u>1,370,098</u>	<u>1,205,479</u>

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

3. 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 the ASBE No. 35 Segment Reporting are as follows:

- Tap water supply – provision of water supply business, engineering business and others
- Wastewater treatment – provision of wastewater treatment business

The Company and its certain subsidiaries mainly provide tap water supply, engineering business and others 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 of the Company, they have similar economic characteristics and provide tap water supply, installation services and others 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 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 in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

Segment revenue and results

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

	For the year ended 31 December	
	2021	2020
	RMB’000	RMB’000
Segment revenue		
Tap water supply		
– From external customers		
– Water supply business	385,811	348,533
– Engineering business	469,019	401,679
– Others	46,012	35,849
Total	900,842	786,061
Wastewater treatment		
– From external customers		
– Operating services	469,257	419,418
Total	469,257	419,418
Revenue	1,370,098	1,205,479
Segment profits		
– Tap water supply	154,018	149,578
– Wastewater treatment	105,760	111,659
– Others	1,197	189
Net profit	260,975	261,426

* Inter-segment sales for 2020 and 2021 were conducted at terms mutually agreed among the companies comprising the Group.

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 reportable segment:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets		
– Tap water supply	5,295,014	5,099,843
– Wastewater treatment	2,421,248	2,220,084
– Others	34,513	24,083
Elimination	<u>-677,459</u>	<u>-675,475</u>
Consolidated total assets	<u>7,073,316</u>	<u>6,668,535</u>
Segment liabilities		
– Tap water supply	3,191,922	3,114,291
– Wastewater treatment	1,211,495	1,094,002
– Others	15,434	6,202
Elimination	<u>-6,556</u>	<u>-4,280</u>
Consolidated total liabilities	<u>4,412,295</u>	<u>4,210,215</u>

4. FINANCE EXPENSES

	For the year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	127,364	111,548
Less: Interest income	9,786	7,632
Add: Foreign exchange losses	226	-60
Add: Interest fees on lease liabilities	116	74
Add: Other expenses	<u>2,064</u>	<u>2,658</u>
	<u>119,985</u>	<u>106,589</u>

5. INCOME TAX EXPENSE

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax expense	48,814	43,708
Deferred income tax expense	-2,467	-676
	<u>46,347</u>	<u>43,032</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and the Law of the PRC on Enterprise Tax (the “ET Law”) and its implementation, the applicable tax rates of the subsidiaries for both years are as follows:

Name of taxpayer	2021	2020
Luzhou Xinglu Water (Group) Co., Ltd. ^{Note 1} and Luzhou Xinglu Water (Group) Co., Ltd. Water Supply and Drainage Quality Monitoring Station (“Monitoring Station”)	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“Lu County Branch”)	15%	15%
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. (“Naxi Water”) ^{Note 1}	15%	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“Hejiang Water”) ^{Note 1}	2.5% or 10%	5% or 10%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (“Crystall Trading”) ^{Note 3}	15%	15%
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd. (“Jiangnan Water”) ^{Note 1}	15%	15%
Luzhou Nanjiao Water Co., Ltd. (“Nanjiao Water”) ^{Note 1}	15%	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“Beijiao Water”) ^{Note 1}	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“Sitong Engineering”) ^{Note 1}	2.5% or 10%	5% or 10%
Zhihui Water Science and Technology Co., Ltd. (“Zhihui Technology”) ^{Note 3}	2.5% or 10%	5% or 10%
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“Sitong Design”) ^{Note 3}	15%	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater”)	2.5% or 10%	5% or 10%
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“Xingxu Water”) ^{Note 3}	15%	15%
Luzhou Xinghe Water Governance Co., Ltd. (“Xinghe Water Governance”) ^{Note 1}	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“Weiyuan Water”) ^{Note 1}	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“Weiyuan Installation”) ^{Note 1}	15%	15%
Luzhou Fanxing Environmental Development Co., Ltd. (“Fanxing Environmental”)	2.5% or 10%	5% or 10%
Xuyong Yongxing Water Governance Co., Ltd. (“Yongxing Water Governance”) ^{Note 3}	2.5% or 10%	5% or 10%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“Xingjia Environmental”) ^{Note 3}	2.5% or 10%	5% or 10%
Leibo Xinglu Water Co., Ltd. (“Leibo Water”) ^{Note 3}	2.5% or 10%	5% or 10%
Dechang Xinglu Water Co., Ltd. (“Dechang Water”) ^{Note 3}	15%	15%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“Qingbaijiang Water”)		

Notes: Enterprise Income Tax Preference

- ① 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. Projects including the Company, Naxi Water, Hejiang Water, Jiangnan Water, Nanjiao Water, Beijiao Water, Weiyuan Water, Weiyuan Installation and Xinghe Water Governance meet the requirements of 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, 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.
- ② According 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.

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 According to the Notice of Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Cai Shui [2019] No. 13) by the Ministry of Finance and the State Administration of Taxation, for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, 25% shall be included in the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%; for the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, it shall be included in the taxable income at a reduced rate of 50% and the enterprise income tax shall be paid at the tax rate of 20%.

According to the Notice of the State Administration of Taxation on Issues Concerning the Implementation of Preferential Income Tax Policies to Support the Development of Small and Low-Profit Enterprises and Individual Business (SAT Notice 2021 No. 8), for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, 12.5% shall be included in the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%.

Yongxing Water Governance, Xingjia Environmental, Crystall Trading, Zihui Technology, Sitong Design, Xingxu Water, Dechang Water and Leibo Water, subsidiaries of the Group meet the above tax relief policy.

6. DIVIDENDS

A final dividend of RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2020, totaling RMB51,583,000 (2020: or RMB0.06 per share (tax inclusive), totaling RMB51,583,000) was declared and paid to the shareholders of the Company during the year ended 31 December 2021.

Subsequent to the end of the Reporting Period, a final dividend of RMB42,985,500 in total or RMB0.05 per share (tax inclusive) in respect of the year ended 31 December 2021 (2020: RMB51,583,000 in total or RMB0.06 per share (tax inclusive)) has been proposed by the Board of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	For the year ended 31 December	
	2021	2020
Net profit realised by the Company (<i>RMB'000</i>)	<u>260,975</u>	<u>261,427</u>
Weighted average number of ordinary shares issued (<i>'000</i>)	<u>859,710</u>	<u>859,710</u>
Earnings per share (RMB)	<u>0.30</u>	<u>0.30</u>

No diluted earnings per share is presented for the year ended 2021 and 2020 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

8. Trade receivables

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	525,927	369,600
Less: Allowance for credit losses	<u>39,869</u>	<u>24,355</u>
Total trade receivables	<u>486,059</u>	<u>345,244</u>

The following is the aging analysis of trade receivables, presented based on the respective revenue recognition dates:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 1 year (inclusive)	418,191	324,137
Between 1 year and 2 years	85,591	29,502
Between 2 years and 3 years	10,532	12,930
Between 3 years and 4 years	9,902	1,433
Between 4 years and 5 years	680	484
Over 5 years	1,031	1,113
	<u>525,927</u>	<u>369,600</u>

9. Trade payables

The following is the aging analysis of trade payables, presented based on the invoice dates:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 1 year (inclusive)	327,982	396,334
Between 1 year and 2 years	38,682	182,385
Between 2 years and 3 years	127,030	47,716
Between 3 years and 4 years	21,754	19,266
Between 4 years and 5 years	19,004	3,492
Over 5 years	5,384	2,682
	<u>539,837</u>	<u>651,877</u>

10. Share capital

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
At the end of the year	<u>859,710</u>	<u>859,710</u>
	'000 shares	'000 shares
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 Hong Kong Stock Exchange.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Industry Overview

To further fulfilling 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 a green and low-carbon development; 3. boosting a 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 safety 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.

(II) 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 promote 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 to become a top integrated water service enterprise in the industry.

(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, 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.

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 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.

Wastewater Treatment Projects

As at the end of the Reporting Period, Xinglu Wastewater 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; and 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 in aggregate.

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.

(IV) Financial Review

1. Analysis of Key Items in the Income Statement

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.

1.1.1 Tap water supply

1.1.1.1 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.

1.1.1.2 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.

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 volume of wastewater treated and 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.

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.

1.2.1 Tap water supply

1.2.1.1 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.

1.2.1.2 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.

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.

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.

1.3.1 Tap water supply

1.3.1.1 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 and caused an increase in amortisation of depreciation.

1.3.1.2 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. Such increase was mainly because the Group undertook a larger number of commercial household meter installation projects which have a higher gross profit.

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.

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.

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.

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.

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; the borrowing interests no longer capitalized and were being expensed after the newly built tap water plants being put into operation which caused an increase in the finance costs.

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.

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.

2. Analysis of Key Balance Sheet Items

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 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 ^{Note 1}	109	94

Note:

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

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 RMB89.3 million and RMB53.7 million as of 31 December 2020 and 2021, respectively. The main reason to such increase is that more inventories were reserved due to increase in construction projects.

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 ^{Note 2}	32	36

Note:

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

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.

2.4 Fixed assets

As of 31 December 2020 and 2021, the Group's fixed assets were 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.

2.5 Construction in progress

As of 31 December 2020 and 2021, the balance of construction in progress of the Group were 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.

2.6 Intangible assets

As of 31 December 2020 and 2021, the Group's intangible assets were 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.

2.7 Long-term deferred expenses

As of 31 December 2020 and 2021, the Group's long-term deferred expenses were 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.

2.8 Short-term borrowings

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

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. Such decrease was mainly due to the settlement with various suppliers as the infrastructure and pipe network projects were completed.

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

	For the years ended	
	31 December	
	2021	2020
Average turnover days of accounts payables ^{Note 3}	268	327

Note:

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

2.10 Contract liabilities

As of 31 December 2020 and 2021, the Group's contract liabilities were 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.

2.11 Other payables

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

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 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.

2.13 Long-term borrowings

As of 31 December 2020 and 2021, the Group's long-term borrowings were 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.

2.14 Long-term payables

As of 31 December 2020 and 2021, the Group's long-term payables were 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.

2.15 Deferred income

As of 31 December 2020 and 2021, the Group's deferred income were 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.

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.

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%).

III. OTHER INFORMATION

(I) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 1,178 employees (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.

(II) 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 of the Company.

Please refer to the table below for details:

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

(III) Major Acquisitions and Disposals

During the Reporting Period, the Company has no major acquisitions or disposal of assets.

(IV) Pledges of the Group's Assets

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 have any pledged assets.

(V) 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 has unutilized monetary funds in Hong Kong dollar, and recognized that foreign exchange gains not arising during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

(VI) 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 signed between Fanxing Environmental and Sichuan Changjiang Engineering Crane Co., Ltd. (四川長江工程起重機有限責任公司) (“**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.

(VII) 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 interests 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

Save as disclosed in this announcement, the Group's did not have other significant events after the Reporting Period.

(IX) Final Dividends

The Board proposed to distribute a final dividend 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 (the “**AGM**”) to be held on Friday, 10 June 2022), with the total amount being approximately RMB42.99 million. Once approved, the final dividends are expected to 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.

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, 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 AGM is Tuesday, 31 May 2022. 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, 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 AGM, 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.

If there is any change in the above expected timing and distribution, the Company will make an announcement in a timely manner in accordance with the relevant regulations of the places where its shares are listed.

(XI) Audit Committee

During the Reporting Period, the audit committee of the Company (the “**Audit Committee**”) comprised two independent non-executive directors, Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming’an, and one non-executive director, Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick as the chairman of the Audit Committee. The primary responsibilities of the 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.

As of the date of this announcement, members of the Audit Committee Mr. Cheng Hok Kai, Frederick, Mr. Gu Ming’an and Mr. Xie Xin were retired on 4 March 2022. During the first meeting of the second session of the Board of Directors held on 4 March 2022, the Company appointed independent non-executive Directors Mr. Fu Ji, Ms. Ma Hua and Mr. Liang Youguo to form a new Audit Committee, with Mr. Fu Ji acting as the chairman of the Audit Committee.

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

During the Reporting Period, the nomination and remuneration committee of the Company (the “**Nomination and Remuneration Committee**”) comprised two independent non-executive directors, Mr. Gu Ming’an and Mr. Cheng Hok Kai, Frederick, and one executive director, Mr. Zhang Qi, with Mr. Gu Ming’an as the chairman of the 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 and review the policy and structure of the remuneration for the directors and senior management of the Company and make recommendations on employee benefit arrangement. The terms of reference of the Nomination and Remuneration Committee are available for inspection on the Company’s website and the website of the Hong Kong Stock Exchange.

As of the date of this announcement, members of the Nomination and Remuneration Committee Mr. Gu Ming’an, Mr. Cheng Hok Kai, Frederick and Mr. Zhang Qi were retired on 4 March 2022. During the first meeting of the second session of the Board of Directors held on 4 March 2022, the Company appointed independent non-executive Directors Ms. Ma Hua and Mr. Liang Youguo and a non-executive Director Mr. Yu Long to form a new Nomination and Remuneration Committee, with Ms. Ma Hua acting as the chairman of the Nomination and Remuneration Committee.

(XIII) **Strategy Committee**

During the Reporting Period, the strategy committee of the Company (the “**Strategy Committee**”) comprised 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 as the chairman of the Strategy Committee. The primary responsibilities of the Strategy Committee are to formulate the operation goals and long-term development strategies of the Company, make proposals on major events and supervise the implementation of annual operating plans and proposals. The terms of reference of the Strategy Committee are available for inspection on the Company’s website and the website of the Hong Kong Stock Exchange.

As of the date of this announcement, member of the Strategy Committee Mr. Lin Bing was retired on 4 March 2022. During the first meeting of the second session of the Board of Directors held on 4 March 2022, the Company appointed Chairman of the Board of Directors Mr. Zhang Qi, non-executive Directors Mr. Chen Bing and Ms. Hu Fenfen to form a new Strategy Committee, with Mr. Zhang Qi acting as the chairman of the Strategy Committee.

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

During the Reporting Period, executive Director and vice general manager of the Company Mr. Wang Junhua submitted his resignation on 12 November 2021. For details of such resignation, please refer to the announcement of the Company dated 12 November 2021.

The term of the first session of the Board, supervisory committee and senior management of the Company expired in December 2018. The Company held the first extraordinary general meeting of 2022 on 4 March 2022. During which the Company re-elected and appointed the non-employee representative Directors, non-employee representative supervisors, and appointed the employee representative Directors, and the employee representative supervisors on the employee representative meeting. For details of the directors of the second session of the Board and the supervisors of the second session of the supervisory committee, please refer to the Company’s announcements dated 26 January 2022 and 4 March 2022.

(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 all the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), 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 (re-numbered as B.2.2 with effect from 1 January 2022, the following is expressed under the new numbering) of the CG 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 of the Company, the term of each of the Directors (including non-executive Director and independent Director) is three years, but may be re-elected by election. The term of the first session of the Board has expired in December 2018. As some of the directors of the Company were nominated by the shareholders, it was not possible to complete the general election before the expiry of the first session of the Board as the nomination process for the successors of some of the directors was still in the process of selection at that time. The Company held a general meeting on 4 March 2022, during which the Company re-elected and appointed the non-employee representative Directors for the second session of the Board and the Employee Representative Meeting appointed the employee representative Directors on the same day. For details, please refer to the Company's announcements dated 26 January 2022 and 4 March 2022.

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

(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 this announcement.

IV. REVIEW OF ANNUAL RESULTS

Scope of work of ShineWing Certified Public Accountants LLP

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 2021 as set out in this results announcement have been audited by the Group's auditor, ShineWing Certified Public Accountants LLP, to the amounts set out in the Group's consolidated financial statements for the Reporting Period. The work performed by SHINEWING does not constitute an assurance engagement within the meaning of the relevant auditing standards, standards on review engagements and standards on assurance engagements and, accordingly, no assurance has been expressed by ShineWing Certified Public Accountants LLP on this preliminary announcement.

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

This announcement of annual results has been published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The annual report of the Group for the year ended 31 December 2021 will be dispatched to the Shareholders and released on the above websites of the Hong Kong Stock Exchange and the Company in due course.

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

Luzhou, Sichuan Province, the PRC
30 March 2022

As at the date of this announcement, the Board comprises of (i) three executive directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Ms. Huang Mei; (ii) three non-executive directors, namely Mr. Chen Bing, Mr. Yu Long and Ms. Hu Fefen; and (iii) three independent non-executive directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.

* For identification purposes only