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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 2022**

### **FINANCIAL HIGHLIGHTS FOR 2022**

- Revenue amounted to approximately RMB1,353.4 million, representing a decrease of approximately 1.2% compared to the same period of 2021.
- Net profit amounted to approximately RMB223.2 million, representing a decrease of approximately 14.5% compared to the same period of 2021.
- Net profit attributable to the owners of the parent company amounted to approximately RMB203.2 million, which represents a decrease of approximately 16% compared to the same period of 2021.
- Basic earnings per share amounted to approximately RMB0.24, representing a decrease of approximately 14.3% compared to the same period of 2021.

### **PROFIT DISTRIBUTION PLAN OF 2022**

- The Board proposed to distribute a final dividend of RMB0.05 per share (tax inclusive) for the year ended 31 December 2022 to all Shareholders on the basis of the number of shares of 859.71 million shares as at 31 December 2022, amounting to a total final dividend of approximately RMB42.99 million. The Company expects to complete the distribution of final dividends on or before 28 July 2023. 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.

The board (the “**Board**”) of directors (the “**Directors**”) of Luzhou Xinglu Water (Group) Co., Ltd.\* (瀘州市興瀘水務(集團)股份有限公司) (the “**Company**” or “**we**”) is pleased to announce the combined income and financial position of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 (the “**Reporting Period**”) together with comparative figures as follows:

## I. FINANCIAL INFORMATION OF THE GROUP

### 1. CONSOLIDATED INCOME STATEMENT

*Currency: RMB'000*

Items	2022	2021
<b>1. Total operating revenue</b>	<b>1,353,419</b>	1,370,098
Including: Operating revenue	<b>1,353,419</b>	1,370,098
<b>2. Total operating cost</b>	<b>1,135,261</b>	1,078,179
Including: Operating cost	<b>859,403</b>	801,504
Taxes and surcharges	<b>31,083</b>	29,997
Cost of sales	<b>24,306</b>	25,078
Management expenses	<b>94,430</b>	101,615
Research and development expenses	<b>821</b>	–
Finance costs	<b>125,217</b>	119,985
Add: Other revenue	<b>63,404</b>	34,509
Investment income (represented by a sign of “–” for loss)	<b>591</b>	673
Credit impairment loss (represented by a sign of “–” for loss)	<b>-28,134</b>	-16,670
Asset impairment loss (represented by a sign of “–” for loss)	–	-12,215
Income from disposal of assets (represented by a sign of “–” for loss)	–	–
<b>3. Operating profit (represented by a sign of “–” for loss)</b>	<b>254,020</b>	298,216
Add: Non-operating revenue	<b>3,775</b>	9,427
Less: Non-operating expense	<b>1,039</b>	321
<b>4. Total profit (represented by a sign of “–” for total loss)</b>	<b>256,756</b>	307,322
Less: Income tax expense	<b>33,516</b>	46,347

Items	2022	2021
<b>5. Net profit (represented by a sign of “-” for net loss)</b>	<b>223,241</b>	260,975
(1) Classified by continuing operation	<b>223,241</b>	260,975
1. Net profit for continuing operation (represented by a sign of “-” for net loss)	<b>223,241</b>	260,975
(2) Classified by attribution of ownership	<b>223,241</b>	260,975
1. Net profit attributable to owners of the parent company (represented by a sign of “-” for net loss)	<b>203,225</b>	241,926
2. minority profit and loss (represented by a sign of “-” for net loss)	<b>20,016</b>	19,048
<b>6. Other comprehensive income, net after tax</b>	<b>-</b>	-599
Other comprehensive income attributable to the owners of the parent company, net after tax	<b>-</b>	-599
(1) Other comprehensive income that cannot be reclassified into profit or loss	<b>-</b>	-599
1. Others	<b>-</b>	-599
<b>7. Total comprehensive income</b>	<b>223,241</b>	260,376
Total comprehensive income attributable to the shareholders of the parent company	<b>203,225</b>	241,327
Total comprehensive income attributable to minority shareholders	<b>20,016</b>	19,048
<b>8. Earnings per share:</b>		
(1) Basic earnings per share (RMB/share)	<b>0.24</b>	0.28
(2) Diluted earnings per share (RMB/share)	<b>0.24</b>	0.28

## 2. CONSOLIDATED BALANCE SHEET

*Currency: RMB'000*

Items	31 December 2022	31 December 2021
<b>Current assets:</b>		
Monetary funds	609,756	871,745
Bills receivable	1,750	2,699
Accounts receivable	526,385	486,059
Prepayments	27,759	19,787
Other receivables	135,172	148,145
Inventories	89,476	53,726
Contract assets	–	–
Other current assets	98,879	74,422
	<hr/>	<hr/>
<b>Total current assets</b>	<b>1,489,176</b>	<b>1,656,582</b>
	<hr/>	<hr/>
<b>Non-current assets:</b>		
Long-term receivables	5,919	5,594
Long-term debt investment	55,867	55,276
Investments in other equity instruments	21	21
Properties held for investment	2,978	3,143
Fixed assets	3,381,791	3,324,840
Construction in progress	354,631	318,004
Right-of-use assets	191	1,721
Intangible assets	1,396,699	1,387,876
Goodwill	28,139	28,139
Long-term deferred expenses	210,243	238,123
Deferred income tax assets	15,022	6,814
Other non-current assets	199,891	47,184
	<hr/>	<hr/>
<b>Total non-current assets</b>	<b>5,651,392</b>	<b>5,416,735</b>
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<b>Total assets</b>	<b>7,140,568</b>	<b>7,073,316</b>
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Items	31 December 2022	31 December 2021
<b>Current liabilities:</b>		
Short-term borrowings	160,126	239,283
Accounts payable	376,117	539,837
Contract liabilities	224,418	194,029
Staff wages payable	44,148	47,331
Tax payable	20,345	26,855
Other payables	228,942	179,435
Of which: Interests payable	–	–
Non-current liabilities due within one year	216,717	927,385
Other current liabilities	2,010	1,968
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,272,823</b>	<b>2,156,124</b>
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<b>Non-current liabilities:</b>		
Long-term borrowings	1,920,928	1,390,656
Bonds payable	103,791	–
Lease liabilities	–	1,298
Long-term payables	744,350	585,292
Estimated liabilities	8,940	4,452
Deferred income	243,132	268,555
Deferred income tax liabilities	5,584	5,918
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>3,026,725</b>	<b>2,256,171</b>
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<b>Total liabilities</b>	<b>4,299,548</b>	<b>4,412,295</b>
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Items	31 December 2022	31 December 2021
<b>Shareholders' equity:</b>		
Share capital	859,710	859,710
Capital reserve	420,447	420,447
Other comprehensive income	-67	-67
Special reserve	16,773	17,011
Surplus reserve	64,032	63,430
Undistributed profits	<u>1,275,235</u>	<u>1,115,598</u>
<b>Total shareholders' equity attributable to the parent company</b>	<b>2,636,130</b>	<b>2,476,129</b>
Minority shareholders' equity	<u>204,890</u>	<u>184,892</u>
<b>Total shareholders' equity</b>	<b><u>2,841,020</u></b>	<b><u>2,661,021</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u><u>7,140,568</u></u></b>	<b><u><u>7,073,316</u></u></b>

## NOTES

### 1. BASIS OF PREPARATION

#### **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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Type of goods</b>		
– Water supply business	411,069	385,811
– Wastewater treatment business	523,978	469,257
– Engineering business	359,487	469,019
– Others	58,886	46,012
	<hr/>	<hr/>
<b>Revenue</b>	<b>1,353,419</b>	<b>1,370,098</b>
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The above revenues 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
- Wastewater treatment – provision of wastewater treatment business



The Company and its certain subsidiaries mainly provide tap water supply, engineering business 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 subsidiaries of the Company providing wastewater treatment 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 Directors, they have similar economic characteristics and provide wastewater treatment services in the PRC under similar production processes to similar customer groups using similar distribution methods 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:

	<b>For the year ended 31 December</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB’000</b>	<b>RMB’000</b>
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Water supply business	<b>411,069</b>	385,811
– Engineering business	<b>359,487</b>	469,019
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Wastewater treatment		
– From external customers		
– Operating services	<b>523,978</b>	469,257
	<hr/>	<hr/>
– Others	<b>58,886</b>	46,012
	<hr/>	<hr/>
<b>Revenue</b>	<b>1,353,419</b>	1,370,098
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<b>Segment profits</b>		
– Tap water supply	<b>46,624</b>	154,018
– Wastewater treatment	<b>169,568</b>	105,760
– Others	<b>7,049</b>	1,197
<b>Net profit</b>	<b>223,241</b>	260,975
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\* Inter-segment sales for 2021 and 2022 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment assets</b>		
– Tap water supply	5,031,402	5,295,014
– Wastewater treatment	2,724,577	2,421,248
– Others	29,628	34,513
Elimination	<u>-660,061</u>	<u>-677,459</u>
Consolidated total assets	<u><b>7,125,546</b></u>	<u><b>7,073,316</b></u>
<b>Segment liabilities</b>		
– Tap water supply	2,885,957	3,191,922
– Wastewater treatment	1,400,263	1,211,495
– Others	12,535	15,434
Elimination	<u>-4,791</u>	<u>-6,556</u>
Consolidated total liabilities	<u><b>4,293,964</b></u>	<u><b>4,412,295</b></u>

## 4. FINANCE EXPENSES

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	131,261	127,364
Less: Interest income	7,111	9,786
Add: Foreign exchange losses	55	226
Add: Interest fees on lease liabilities	81	116
Add: Other expenses	<u>931</u>	<u>2,064</u>
	<u><b>125,217</b></u>	<u><b>119,985</b></u>

## 5. INCOME TAX EXPENSE

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax expense	42,058	48,814
Deferred income tax expense	-8,542	-2,467
	<u>33,516</u>	<u>46,347</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	2022	2021
Luzhou Xinglu Water (Group) Co., Ltd.* (“Water Headquarters”) <sup>Note 1</sup>	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“Lu County Branch”) <sup>Note 1</sup>	15%	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“Hejiang Water”) <sup>Note 1</sup>	15%	15%
Luzhou Nanjiao Water Co., Ltd. (“Nanjiao Water”) <sup>Note 1</sup>	15%	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“Beijiao Water”) <sup>Note 1</sup>	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“Sitong Engineering”) <sup>Note 1</sup>	15%	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater”) <sup>Note 1</sup>	15%	15%
Luzhou Xinghe Water Governance Co., Ltd. (“Xinghe Water Governance”) <sup>Note 1</sup>	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“Weiyuan Water”) <sup>Note 1</sup>	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“Weiyuan Installation”) <sup>Note 1</sup>	15%	15%
Luzhou Fanxing Environmental Development Co., Ltd. (“Fanxing Environmental”) <sup>Note 1</sup>	15%	15%
Dechang Xinglu Water Co., Ltd. (“Dechang Water”) <sup>Note 1</sup>	15%	2.5% or 10%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“Qingbaijiang Water”) <sup>Note 1</sup>	15%	15%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“Xingjia Environmental”)	2.5%	2.5% or 10%
Leibo Xinglu Water Co., Ltd. (“Leibo Water”)	15%	2.5% or 10%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (“Crystal Trading”) <sup>Note 3, 4, 5</sup>	2.5% or 10%	2.5% or 10%
Zhihui Water Science and Technology Co., Ltd. (“Zhihui Technology”) <sup>Note 3, 4, 5</sup>	2.5% or 10%	2.5% or 10%
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“Sitong Design”) <sup>Note 3, 4, 5</sup>	2.5% or 10%	2.5% or 10%
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“Xingxu Water”) <sup>Note 3, 4, 5</sup>	2.5% or 10%	2.5% or 10%
Xuyong Yongxing Water Governance Co., Ltd. (“Yongxing Water Governance”) <sup>Note 3, 4, 5</sup>	2.5% or 10%	2.5% or 10%

## 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 Water Headquarters, Luxiang Branch, Naxi Water, Jiangnan Water, Hejiang Water, Nanjiao Water, Beijiao Water, Sitong Engineering, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, Weiyuan Installation, Fanxing Environmental, Dechang Water, and Qingbaijiang Water meet the requirements of the Notice of the 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
Wastewater Company (Chengdong Wastewater Treatment Plant)	2016 – 2018	2019 – 2021
Wastewater Company (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
Qingbaijiang Water	2020 – 2022	2023 – 2025

- ③ 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 (Cai Shui [2021] No. 12) and Notice of the Ministry of Finance and the State Taxation Administration on Further Implementing the Preferential Income Tax Policies for Micro and Small Enterprises (Cai Shui [2022] No. 13), 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%; 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 25% and the enterprise income tax shall be paid at the tax rate of 20%.
- ④ According to the Notice of Implementing the Preferential Income Tax Policies for Small and Micro Size Enterprises and Individual Industrial and Commercial Households by the Ministry of Finance and the State Administration of Taxation (Ministry of Finance and the State Administration of Taxation Cai Shui [2021] No. 12), for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, on the basis of the preferential policies stipulated in Article 2 of 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, the enterprise income tax shall be reduced by half and accounted for at 2.5%.
- ⑤ According to the Notice of the Ministry of Finance and the State Taxation Administration on Further Implementing the Preferential Income Tax Policies for Micro and Small Enterprises (Cai Shui [2022] No. 13), 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 25% and the enterprise income tax shall be paid at the tax rate of 20%.

## 6. DIVIDEND

A final dividend of RMB0.05 per share (tax inclusive) in respect of the year ended 31 December 2021, totalling RMB42,985,500 was declared and paid to the shareholders of the Company during the Reporting Period.

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 2022 (2021: RMB42,985,500 in total or RMB0.05 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:

	<b>For the year ended 31 December</b>	
	<b>2022</b>	2021
Net profit realised by the Company (RMB'000)	<u><b>203,225</b></u>	<u>241,926</u>
Weighted average number of ordinary shares issued ('000)	<u><b>859,710</b></u>	<u>859,710</u>
Earnings per share (RMB)	<u><b>0.24</b></u>	<u>0.28</u>

No diluted earnings per share is presented for the year ended 2022 and 2021 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

## 8. TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade Receivables	574,878	525,927
Less: Allowance for credit losses	48,493	39,869
	<hr/>	<hr/>
Total trade receivables	<b>526,385</b>	<b>486,059</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	386,538	418,191
1-2 years	139,577	85,591
2-3 years	39,393	10,532
3-4 years	1,629	9,902
4-5 years	6,251	680
Over 5 years	1,490	1,031
	<hr/>	<hr/>
	<b>574,878</b>	<b>525,927</b>
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## 9. TRADE PAYABLES

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	150,464	327,982
1-2 years	106,477	38,682
2-3 years	7,369	127,030
3-4 years	93,166	21,754
4-5 years	8,832	19,004
Over 5 years	9,809	5,384
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	<b>376,117</b>	<b>539,837</b>
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## 10. SHARE CAPITAL

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
At the end of the year	<u>859,710</u>	<u>859,710</u>
	<i>'000 shares</i>	<i>'000 shares</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 Hong Kong Stock Exchange.

## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (1) Industry Overview

In recent years, the urban water supply penetration rate in China stood at approximately 99.38%, and the urban wastewater treatment rate was approximately 97.89%. Urban water supply and wastewater treatment have entered a mature stage and the growth of demand has slowed down, and the water supply and wastewater treatment business will gradually penetrate into rural towns in the future. On 30 December 2022, the National Development and Reform Commission, the Ministry of Housing and Urban-Rural Development, the Ministry of Ecology and the Environment jointly released the Implementation Plan for Promoting the Construction and Management of Domestic Wastewater Treatment Facilities in the Established Towns, pointing out that China will significantly improve the domestic wastewater treatment capacity in the built-up areas of the established towns, basically build a sewage pipe network in all the built-up areas of the established towns with a resident population of more than 50,000, and basically achieve full coverage of domestic wastewater treatment service in the built-up areas of the established towns with a resident population of more than 10,000 and the built-up areas of the established towns in the Beijing-Tianjin-Hebei region, the Yangtze River Delta region, and the Guangdong-Hong Kong-Macao Greater Bay Area by 2025. China will basically achieve full coverage of domestic wastewater collection and treatment service and full collection and full treatment of household waste in built-up areas of the established towns by 2035. The support of national policies is not only conducive to the steady growth of the water industry, but also promotes the rapid development of water supply and drainage business in townships, becoming a new revenue and profit growth point for water service providers.

In addition, with the widespread application of a new generation of information technology such as the Internet of Things, big data and edge computing, the IT needs of the water industry are evolving in the direction of diversification and complexity. The establishment of an intelligent water system enables the Group to strengthen the integration, development and utilisation management level of information in the water industry, establish sound unified and coordinated information standards and norms, develop and popularise key generic technologies and products based on information, and promote the sharing of information resources in the water industry, which has become an inevitable trend in the water industry. The ability to provide information-based integrated solutions for water industry has become the key for players to win a competitive advantage. Moreover, the rapid expansion of China's water supply network has led to increased management pressure, higher leakage rate of water supply network, and the continuous increase of sewage discharge. Therefore, the optimisation of the drainage network system, the construction/expansion of the pipe network, the optimisation of the operation and scheduling of the water supply network, the emergency system for flood control and drainage, the intelligent control of the disinfection and chlorination process, and the leakage control of the water supply network will also create opportunities for the growth of the water industry in the future and make information and intelligent construction of increasingly urgent needs for China's water industry.



For this purpose, we believe that the water industry will develop in an accelerated pace in the contactless economy, digital economy empowerment, intelligent water services and other aspects, water security and protection will be fully upgraded, quality improvement for urban wastewater pipe network will be rapidly promoted, and penetration rate of water supply and drainage business in townships will further increase. These trends will push the water industry into a period of quality improvement and transformation.

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

The Company will fully grasp the development opportunities, implement the development philosophy of “steady development of the principal water supply and drainage business, vertical extension of upstream and downstream industries, horizontal expansion of regional business” put forward for the 14th Five-Year Plan period and adopt the management strategy of “consolidation, expansion, capital empowerment, technology leading and service improvement”. We will focus on strengthening and enhancing our long-term sustainable and healthy development and pay more attention to development quality, with a view to transforming into an intelligent water service provider driven by innovation.

Driven by technology empowerment and capital operation, the Company will concentrate on key points, expand business to improve benefits, promote the integration of water supply and drainage in townships, expand the regional liquor-making wastewater treatment market, establish a replicable control mode for external expansion, and set foot in shale gas wastewater and other industrial wastewater treatment field. Efforts will be made to tap the internal potential, reduce costs and increase profits, optimise the “Internet + production management” system, and promote the intelligent operation of the wastewater treatment sector. We will seek the intelligent control and an intelligent scheduling system for pipe leakage. Led by technologies, the Company will build on momentum in the industry chain, build the “intelligent water” technology brand, and create new revenue and profit growth points through the “software + hardware + promotion” sales model, aiming to promote its sustainable and healthy development.

## **(3) Business Review**

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

As at the end of the Reporting Period, we operated twelve tap water plants, nine city wastewater treatment plants, two industrial park wastewater treatment plant and seven 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, with a total treatment capacity of approximately 128.6 million tons per day.

### ***Tap Water Projects***

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), unchanged from the end of 2021. The average utilization rate of tap water plants is 69.5%.

During the Reporting Period, our total sales of water amounted to approximately 161.7 million tons, representing an increase of 4.66% as compared with approximately 154.5 million tons for the same period of 2021. 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 Treatment owned 9 operating city wastewater treatment plants (excluding emergency back-up sewage treatment plants), with a daily treatment capacity of approximately 433,500 tons in aggregate and production load rate of 92.0%; two industrial park wastewater treatment plants, with a daily treatment capacity of approximately 30,000 tons in aggregate; seven entrusted operation wastewater treatment plants, with a daily treatment capacity of approximately 32,000 tons in aggregate; and a total of 204 wastewater treatment facilities in the townships and rural areas, with a daily treatment capacity of approximately 53,000 tons in aggregate, representing an increase of 7 wastewater treatment facilities as compared with that by the end of 2021.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 150.2 million tons, representing an increase of 4.09% as compared with that of 144.3 million tons for the same period of 2021. The increase was mainly due to an increase in the treatment volume of urban wastewater.

## **(4) 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 RMB1,353.4 million, decreased by 1.2% from RMB1,370.1 million for the same period of 2021. The decrease was mainly due to the decrease in total revenue caused by a significant decrease in engineering installation revenue resulted from the impact of real estate market.

## 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 RMB411.1 million, increased by 6.6% from RMB385.8 million for the same period of 2021. The increase was mainly due to the increase in the amount of water sold. Revenue generated from sales of tap water accounted for 28.2% and 30.4% of our total revenue for 2021 and 2022, respectively.

### 1.1.1.2 Engineering installation

During the Reporting Period, revenue of the Group generated from installation services amounted to RMB359.5 million, decreased by 23.3% from RMB469.0 million for the same period of 2021. The decrease was mainly due to the overall decline in the real estate market and the decrease in household meter installations. Revenue generated from installation services accounted for 34.2% and 26.6% of our total revenue for 2021 and 2022, respectively.

## 1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group generated from wastewater treatment amounted to RMB524.0 million, increased by 11.7% from RMB469.3 million for the same period of 2021. The increase was mainly due to the increase in wastewater treatment volume. Revenue generated from wastewater treatment accounted for 34.2% and 38.7% of our total revenue for 2021 and 2022, respectively.

## 1.2 Operating cost

During the Reporting Period, the Group's operating cost amounted to RMB859.4 million, increased by 7.2% from RMB801.5 million for the same period of 2021. The increase was mainly due to the increase in depreciation and amortization expenses upon the transfer of newly built water plants to fixed assets and the corresponding increase in costs due to the increase in water sold and wastewater treatment volume.

## 1.2.1 Tap water supply

### 1.2.1.1 Sales of tap water

During the Reporting Period, the Group's operating cost from sales of tap water amounted to RMB367.5 million, increased by 12.5% from RMB326.7 million for the same period of 2021. The increase was mainly due to the increase in depreciation and amortization expenses after the transfer of Beijiao Second Water Plant and Naxi Water Plant Project to fixed assets, and the corresponding increase in costs as a result of the increase in water sold. Operating cost from sales of tap water supply operations accounted for 39.3% and 42.8% of our total operating cost for 2021 and 2022, respectively.

### 1.2.1.2 Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB146.6 million, decreased by 12.4% from RMB167.3 million for the same period of 2021. The decrease was mainly due to the decrease in engineering installation projects. Operating cost associated with installation services accounted for 21.9% and 17.1% of our total operating cost for 2021 and 2022, respectively.

## 1.2.2 Wastewater treatment

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB301.8 million, increased by 6.9% from RMB282.2 million for the same period of 2021. The increase was mainly due to the corresponding change in cost as a result of the increase in the volume of sewage treatment. Operating cost from wastewater treatment operating services accounted for 36.9% and 35.1% of the total operating cost for 2021 and 2022, respectively.

## 1.3 Gross Profit and Gross Profit Margin

As a result of the above, the Group's gross profit amounted to RMB494.0 million during the Reporting Period, decreased by 13.1% from RMB568.6 million for the same period of 2021. Gross profit margin decreased from 41.5% for 2021 to 36.5% during the Reporting Period which was mainly due to adjustment of tariff policy. The decrease in gross profit margin was mainly due to the adjustment of tariff policy, which caused the decrease in revenue from household meter installation, and the increase in depreciation and amortization expenses upon the transfer of newly built water plants to fixed assets.

### 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 RMB43.6 million, decreased by 26.4% from RMB59.2 million for the same period of 2021. The corresponding gross profit margin decreased from 15.3% for 2021 to 10.6% during the Reporting Period. The decrease was mainly due to the increase in depreciation and amortization expense upon the transfer of newly built water plants to fixed assets.

#### 1.3.1.2 Engineering installation

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB212.9 million, decreased by 29.5% from RMB301.8 million for the same period of 2021. Its corresponding gross profit margin decreased from 64.3% for 2021 to 59.2% during the Reporting Period. The decrease was mainly due to the adjustment of tariff policy, resulting in a decrease in the gross profit margin of installation services.

### 1.3.2 Wastewater treatment

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB222.1 million, increased by 18.7% from RMB187.1 million for the same period of 2021. Its corresponding gross profit margin increased from 39.9% for 2021 to 42.4% during the Reporting Period. The increase was mainly due to lower unit costs as a result of the optimization of our wastewater treatment model.

### 1.4 Other revenue

During the Reporting Period, the Group's other revenue amounted to RMB63.4 million, increased by 83.7% from RMB34.5 million for the same period of 2021. The increase was mainly due to the receipt of the sludge disposal subsidy fee granted from the government.

### 1.5 Cost of sales

During the Reporting Period, the Group's cost of sales amounted to RMB24.3 million, decreased by 3.1% from RMB25.1 million for the same period of 2021. The decrease was mainly due to a decrease in office expenses and amortization.

## *1.6 Management expenses*

During the Reporting Period, the Group's management expenses amounted to RMB94.4 million, decreased by 7.1% from RMB101.6 million for the same period of 2021. The decrease was mainly due to the decrease in labour costs and fees for consulting services, and information technology services.

## *1.7 Research and development expenses*

During the Reporting Period, the Group's research and development expenses amounted to RMB0.8 million, which mainly represented the research and development expenses for the "C-MBR integrated wastewater treatment equipment" developed by Fanxing Environmental.

## *1.8 Finance costs*

During the Reporting Period, the Group's finance costs amounted to RMB125.2 million, increased by 4.4% from RMB120.0 million for the same period of 2021. The increase was mainly due to the interest expensed on the corresponding loan after the transfer of the Hejiang Huangxi Water Plant to fixed assets and the increase in interest on the new loan for Qingbaijiang Water and Xinglu Wastewater.

## *1.9 Income tax expense*

During the Reporting Period, the income tax expenses amounted to RMB33.5 million, decreased by 27.7% from RMB46.3 million for the same period of 2021. The decrease was mainly due to the decrease in income tax expenses as a result of the increase in deferred income tax assets recognized in accounts receivable, provision for asset impairment and estimated liabilities at the end of the year. As of 31 December 2021 and 2022, the effective tax rates of the Group were 15.1% and 13.1%, respectively.

## *1.10 Net profit and net profit margin*

As a result of the above, the Group's net profit amounted to RMB223.2 million during the Reporting Period, decreased by 14.5% from RMB261.0 million for the same period of 2021. Net profit margin decreased from 19.1% for 2021 to 16.5% during the Reporting Period.

## 2. Analysis of Key Balance Sheet Items

### 2.1 Accounts receivable

Accounts receivable of the Group were RMB486.1 million and RMB526.4 million as of 31 December 2021 and 2022, respectively. The increase was mainly due to the increase in water fee receivables, wastewater treatment fee receivables and construction fee receivables.

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

	For the year ended	
	31 December	
	2022	2021
Average turnover days of accounts receivable <sup>Note 1</sup>	135	109

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 RMB53.7 million and RMB89.5 million as of 31 December 2021 and 2022, respectively. The increase was mainly due to an increase in costs of fulfilling contracts.

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

	For the year ended	
	31 December	
	2022	2021
Average turnover days of inventory <sup>Note 2</sup>	30	32

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 2021 and 2022, the Group's other receivables were RMB148.2 million and RMB135.2 million, respectively. The decrease was mainly due to the recovery of advances and security deposits.

### *2.4 Fixed assets*

As of 31 December 2021 and 2022, the Group's fixed assets were RMB3,324.8 million and RMB3,381.8 million, respectively. The increase was mainly due to the increase in fixed assets as a result of the fix assets recognised from construction work in progress, including Naxi Wastewater Treatment Plant Phase III, Erdaoxi Wastewater Treatment Plant Phase III and Hejiang Wastewater Treatment Plant Phase III.

### *2.5 Construction in progress*

As of 31 December 2021 and 2022, the Group's balance of construction in progress were RMB318.0 million and RMB354.6 million, respectively. The increase was mainly due to the construction of new projects, such as Xicao-Wine Industrial Park Water Supply project (Gaoke Road Section), Beijiao Second Water Plant-Airport Road of water transmission and distribution pipeline installation, Medium and high-pressure water pipeline installation from Hexi Pump Station to Naxi City District, Zhangwan Wastewater Treatment capacity expansion project, Xuyong Wastewater Treatment Plant Phase II, Chengnan Wastewater Treatment Plant Phase II and Chengdong Wastewater Treatment Plant Phase II.

### *2.6 Intangible assets*

As of 31 December 2021 and 2022, the Group's intangible assets were RMB1,387.9 million and RMB1,396.7 million, respectively. The increase was mainly due to transfer to intangible assets after the final settlement of the Erdaoxi Phase III, the addition of the Internet+ Production Management System of the Information Center of the Production Department and the optimization and upgrade of Yongyou (用友) products.

### *2.7 Long-term deferred expenses*

As of 31 December 2021 and 2022, the Group's long-term deferred expenses were RMB238.1 million and RMB210.2 million, respectively. The decrease was mainly due to the amortization as scheduled over the period.

### *2.8 Short-term borrowings*

As of 31 December 2021 and 2022, the Group's short-term borrowings were RMB239.3 million and RMB160.1 million, respectively. Such decrease was mainly due to the repayment of bank short-term borrowings.



## 2.9 Accounts payable

As of 31 December 2021 and 2022, the Group's accounts payable were RMB539.8 million and RMB376.1 million, respectively. The decrease was mainly due to the payment for construction fees in relation to projects such as Beijiao Second Water Plant Phase I, water meter transformation projects (Phase I) in the central downtown, Jiangyang District-Wide Water Supply, Xicao No. 2 Water Treatment Plant Phase I and Naxi Water Plant Phase I.

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2022</b>	<b>2021</b>
Average turnover days of accounts payable <sup>Note 3</sup>	<b>192</b>	268

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 2021 and 2022, the Group's contract liabilities were RMB194.0 million and RMB224.4 million, respectively. The increase was mainly due to prepaid water fees, wastewater treatment fees and construction fees.

## 2.11 Other payables

As of 31 December 2021 and 2022, the Group's other payables were RMB179.4 million and RMB228.9 million, respectively. The increase was mainly due to the financial grants received by Xinghe Water Governance and the subsidies received by Xinglu Wastewater from the Zhangwan Outfall Project, which will be earmarked for the specified purposes in the subsequent period.

## 2.12 Non-current liabilities due within one year

As of 31 December 2021 and 2022, the Group's non-current liabilities due within one year were RMB927.4 million and RMB216.7 million, respectively. The decrease was mainly due to the repayment of the non-current liabilities due within one year.

### *2.13 Long-term borrowings*

As of 31 December 2021 and 2022, the Group's long-term borrowings were RMB1,390.7 million and RMB1,920.9 million, respectively. The increase was mainly due to the new bank loans for the replacement of the principal amount of bonds issued, and the new loans for new water and wastewater treatment plant projects.

### *2.14 Long-term payables*

As of 31 December 2021 and 2022, the Group's long-term payables were RMB585.3 million and RMB744.4 million, respectively. The increase was mainly due to the receipt of proceeds from bonds earmarked for wastewater treatment projects and payment for financial leasing.

### *2.15 Deferred income*

As of 31 December 2021 and 2022, the Group's deferred income were RMB268.6 million and RMB243.1 million, respectively. Such decrease was mainly due to the regular amortization of government grants.

## **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 (the "Shareholders") 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 include borrowings net of cash and cash equivalents) and total equity (comprising 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 the Reporting Period, the bank balances and cash of the Group amounted to approximately RMB609.8 million (at the end of 2021: approximately RMB871.7 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB3,098.4 million (at the end of 2021: RMB3,142.6 million), including bank and other borrowings.

As at the end of the Reporting Period, the net debts to equity ratio of the Group (being calculated by total equity divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 91.2% (at the end of 2021: 85.3%).

### **III. OTHER INFORMATION**

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

As at the end of the Reporting Period, the Group had 933 employees (2021: 1,178). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB152.2 million (2021: approximately RMB182.9 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 performance-based pay system of the subsidiaries of the Company.

Note: Due to the business integration of the Company, part of our business is outsourced to reduce the numbers of labor dispatching employees.

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

#### **(2) Major Acquisitions and Disposals**

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

#### **(3) 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.

#### **(4) 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 no foreign exchange gains during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

## (5) Contingent Liabilities

- (i) 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.
- (ii) During the Reporting Period, the Company and Zhongjiaojian Hongfeng Group Co., Ltd.\* (中交建宏峰集團有限公司) (“**Hongfeng**”) were in dispute over balance payment due to Hongfeng’s breach of construction schedule and subcontracting requirements during the construction process in the course of performance of the Contract on Civil Engineering Construction of Luzhou Nanjiao No. 2 Water Plant entered into between the two companies. Hongfeng has filed a lawsuit against the Company, seeking payment of the balance of RMB11.55 million, interest on capital occupied and litigation costs.

## (6) Significant Investments Held

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB55.9 million (2021: approximately RMB55.3 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.

## (7) Events after the Reporting Period

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

## (8) Final Dividends

The Board proposed to distribute a final dividend of RMB0.05 per share (tax inclusive) for the year ended 31 December 2022 (2021: RMB0.05 per share (tax inclusive)) to the Shareholders whose names appeared on the register of members of the Company on Tuesday, 11 July 2023 (the “**Record Date**”) (subject to the approval of Shareholders on the annual general meeting (the “**AGM**”) to be held on Friday, 9 June 2023), with the total amount being approximately RMB42,985,500. Once approved, the final dividends are expected to be paid on or before Friday, 28 July 2023.

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 of 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.

## (9) 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 Wednesday, 31 May 2023 to Friday, 9 June 2023 (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 Wednesday, 31 May 2023. 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 Tuesday, 30 May 2023.

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 Thursday, 6 July 2023 to Tuesday, 11 July 2023 (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 Tuesday, 11 July 2023. 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 Wednesday, 5 July 2023.

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.

## (10) Audit Committee

During the Reporting Period, the members of the audit committee of the Company (“**Audit Committee**”), i.e. Mr. Cheng Hok Kai, Frederick, Mr. Gu Ming’an and Mr. Xie Xin, retired on 4 March 2022. During the first meeting of the second session of the Board held on the same day, 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, holds the appropriate professional qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules. 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.

The Audit Committee has reviewed this annual results announcement and 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.

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

During the Reporting Period, the members of the nomination and remuneration committee of the Company (the “**Nomination and Remuneration Committee**”), i.e. Mr. Gu Ming’an, Mr. Cheng Hok Kai, Frederick and Mr. Zhang Qi, retired on 4 March 2022. During the first meeting of the second session of the Board held on the same day, 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.

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, make recommendations on employee benefit arrangement and to review and approve matters relating to share schemes under Chapter 17 of the Listing Rules. 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.

## **(12) Strategy Committee**

During the Reporting Period, the member of the strategy committee of the Company (the “**Strategy Committee**”), i.e. Mr. Lin Bing, retired on 4 March 2022. During the first meeting of the second session of the Board held on the same day, the Company appointed the Chairman of the Board 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.

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.

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

During the Reporting Period, in view of the expiration of the terms of office of the Directors of the first session of the Board and the supervisors of the first session of the supervisory committee of the Company, the Company convened on 4 March 2022 (1) the first extraordinary general meeting of 2022 for the re-election and appointment of the Directors of the second session of the Board and the supervisors of the second session of the the supervisory committee of the Company, and (2) the employee representative meeting of the Company for the re-election and appointment of the employee representative Directors of the second session of the Board and the employee representative supervisors of the second session of the supervisory committee. For details, please refer to the announcements of the Company dated 26 January 2022 and 4 March 2022, and the circular dated 15 February 2022.

#### **(14) 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 Listing Rules, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

During the Reporting Period, the Company has been complied with all code provisions under the Corporate Governance Code.

#### **(15) 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.

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

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

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

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



## **(18) 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 2022 as set out in this results announcement have been audited by the Group's auditor, ShineWing Certified Public Accountants LLP (“SHINEWING”), 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 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](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 2022 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, the PRC,  
30 March 2023

*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 Fenfen; and (iii) three independent non-executive directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.*

\* For identification purposes only