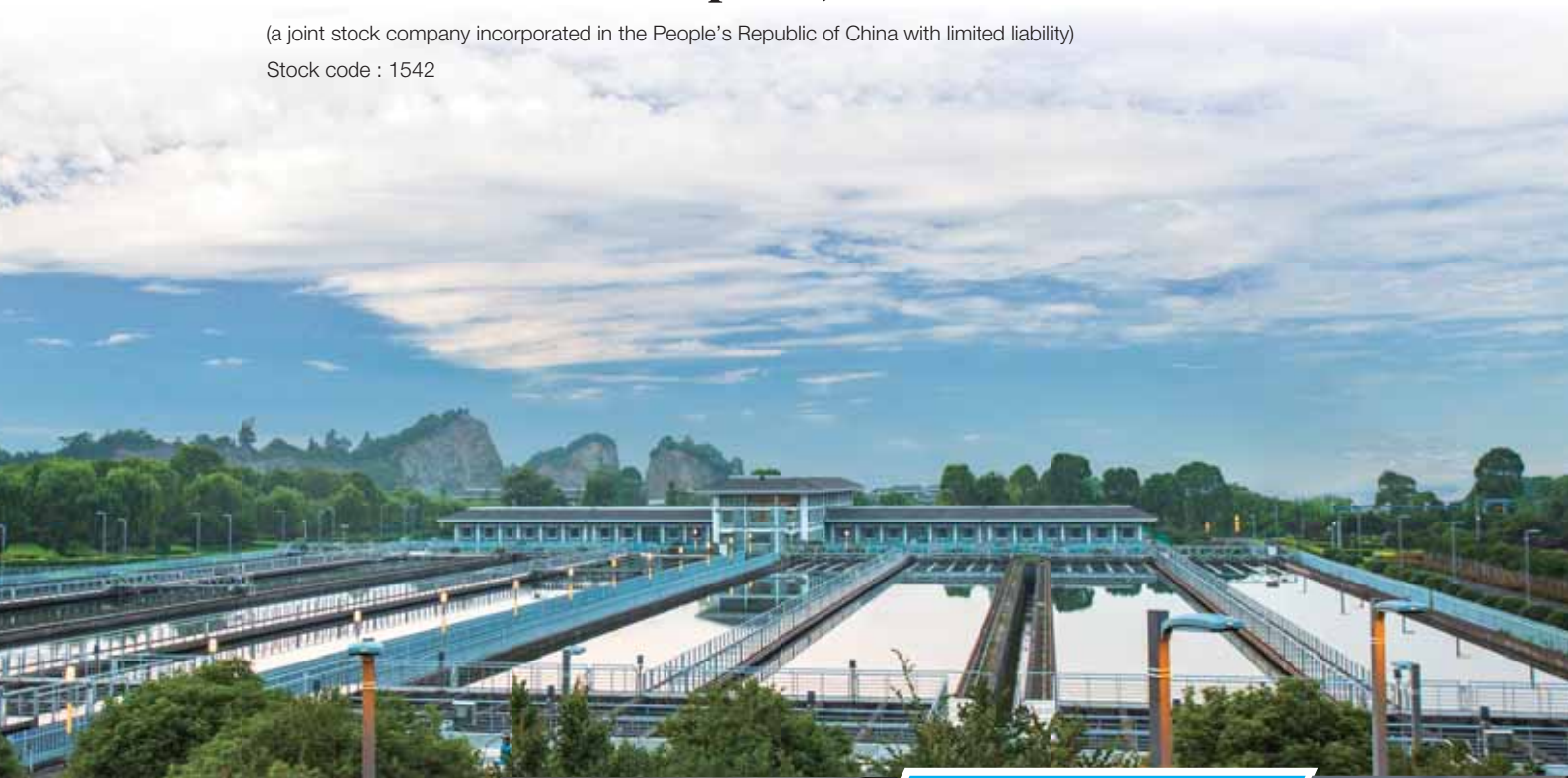




台州市水務集團股份有限公司 Taizhou Water Group Co., Ltd.*

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

Stock code : 1542



ANNUAL
REPORT
2019

** For identification purposes only*



CONTENT

Corporate Information	2
Definitions	4
Financial Highlights	7
Chairman's Statement	8
Management Discussion and Analysis	10
Biographies of Directors, Supervisors and Senior Management	18
Report of Directors	27
Report of the Supervisory Committee	45
Corporate Governance Report	47
Independent Auditor's Report	59
Consolidated Statement of Profit or Loss and Other Comprehensive Income	64
Consolidated Statement of Financial Position	65
Consolidated Statement of Changes in Equity	67
Consolidated Statement of Cash Flows	68
Notes to Financial Statements	70
Four-Year Financial Summary	128

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yan Chuanhua ^(Note) (*Chairman of the Board*)
Mr. Zhang Junzhou

Non-executive Directors

Mr. Wang Haibo
Mr. Wang Haiping
Ms. Fang Ya
Mr. Yu Yangbin
Ms. Huang Yuyan
Mr. Yang Yide
Mr. Guo Dingwen
Mr. Ye Jianhua (resigned on 10 March 2020)

Independent Non-Executive Directors

Mr. Zheng Jianzhuang
Ms. Lin Suyan
Ms. Hou Meiwen
Mr. Li Wai Chung
Mr. Wang Yongyue

REMUNERATION COMMITTEE

Mr. Wang Yongyue (*Chairman*)
Mr. Yan Chuanhua
Mr. Zhang Junzhou
Mr. Zheng Jianzhuang
Ms. Lin Suyan

NOMINATION COMMITTEE

Mr. Yan Chuanhua (*Chairman*)
Mr. Yu Yangbin
Mr. Yang Yide
Mr. Zheng Jianzhuang
Ms. Lin Suyan
Ms. Hou Meiwen
Mr. Wang Yongyue

AUDIT COMMITTEE

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

STRATEGY COMMITTEE

Mr. Yan Chuanhua (*Chairman*)
Mr. Zhang Junzhou
Mr. Wang Haibo
Ms. Fang Ya
Ms. Huang Yuyan
Mr. Zheng Jianzhuang
Mr. Ye Jianhua (resigned on 10 March 2020)

JOINT COMPANY SECRETARIES

Ms. Chen Liying
Ms. Siu Pui Wah

AUTHORISED REPRESENTATIVES

Mr. Yan Chuanhua
Ms. Siu Pui Wah

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

Note: Mr. Yan Chuanhua tendered resignation as our executive Director on 19 March 2020 and the resignation will be effective from the conclusion of the AGM.

Corporate Information

H SHARE REGISTRAR

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

LEGAL ADVISER**As to Hong Kong law**

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

As to PRC law

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

COMPLIANCE ADVISER

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

PRINCIPAL BANKERS

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

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

STOCK CODE

1542

COMPANY WEBSITEwww.zjtzwater.com

DEFINITIONS

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

“AGM” or “Annual General Meeting”	the annual general meeting of the Company for the year ended 31 December 2019 to be convened and held on Friday, 5 June 2020, or any adjournment thereof
“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Binhai Water”	Taizhou Binhai Water Co., Ltd.* (台州市濱海水務有限公司), a limited liability company established in the PRC on 7 June 2016
“Board” or “Board of Directors”	the board of Directors of the Company
“Chairman”	the chairman of the Board
“China” or “PRC”	the People’s Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context otherwise requires, references in this annual report to “China” and the “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
“Company”	Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1542)
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as promulgated by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB

Definitions

“Group”, “we” or “our”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in HKD
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Initial Public Offering”	the successful initial public offering of the Company’s H Shares through the Stock Exchange on 31 December 2019
“Listing Date”	31 December 2019, being the date on which the H Shares of the Company were listed and from which dealings commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“Prospectus”	the prospectus of the Company dated 17 December 2019, issued in relation to the Initial Public Offering and the listing of H Shares on the Stock Exchange
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the 12-month period from 1 January 2019 to 31 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Share(s) and/or the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)

Definitions

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company
“Taizhou Luqiao Water Supply”	Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司), a limited liability company established in the PRC on 7 March 2000
“Taizhou South Bay Water Supply”	Taizhou South Bay Water Supply Co., Ltd.* (台州市南部灣區水務有限公司), a limited liability company established in the PRC on 13 March 2018 and a 60%-owned subsidiary of our Company as at the date of this annual report
“Wenling Water Supply”	Wenling Water Supply Co., Ltd.* (溫嶺市供水有限公司), a limited liability company established in the PRC on 20 November 2007
“Yuhuan Water Supply”	Yuhuan Water Supply Co., Ltd.* (玉環市自來水有限公司), a limited liability company established in the PRC on 12 May 1992
“Zhejiang Huangyan Water Supply”	Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司), a limited liability company established in the PRC on 1 January 1989
“%”	per cent

* For identification purposes only

FINANCIAL HIGHLIGHTS

As a listed company of integrated water supply, the Company has both the goals of profitability and public welfare. For the profitability, growth and the Group's management ability of the operations cared by the investors, the Group focuses on selecting indicators related to profitability in the financial review such as revenue, cost, expenses, gross profit and gross profit margin, profit after tax and profit margin, etc., in order to analyse the profitability and future trends so that the investors can better understand profitability and growth. The Group has chosen to make analysis and explanation of major assets and major current accounts, so that investors and stakeholders can better understand the Group's financial position and management's operation capabilities.

RESULTS

Year ended 31 December

	2019 RMB'000	2018 RMB'000
CONTINUED OPERATIONS		
Revenue	472,148	504,263
Profit before tax from Continued Operations	140,479	160,787
Income tax expense	35,958	40,537
Profit for the year from Continued Operations	104,521	120,250
Profit for the year from Discontinued Operations	–	3,248
Profit and other comprehensive income for the year	104,521	123,498
Attributable to:		
Owners of the Company	92,540	110,450
Non-controlling interests	11,981	13,048
	104,521	123,498
Basic earnings per share ^(Note) (RMB)	0.62	0.74
Dividend per share (RMB)	0.16	–

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

ASSETS AND LIABILITIES

As at 31 December

	2019 RMB'000	2018 RMB'000
Total assets	2,929,328	1,953,177
Total liabilities	2,027,109	1,307,800
Total equity	902,219	645,377
Equity attributable to owners of the parent	764,550	519,689
Non-controlling interests	137,669	125,688
	902,219	645,377

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the annual results of the Group for the Reporting Period to all the Shareholders.

2019 was the most critical year for the reform and development of state-owned enterprises, and also a year in which the Group made breakthroughs in implementing the Company's development strategy. The Group adhered to the concept of "focusing on environmental protection and energy saving, ensuring high-quality water supply and servicing everyone", under which all members of the Group stuck to our original aspiration and tackled various difficulties. Therefore, with steady growth in the operating results, the safety of water supply throughout the year and the effective promotion of the construction of key engineering projects have been achieved under the leadership of the Board and with the support of all Shareholders. In addition, the successful completion of the Initial Public Offering in Hong Kong which further expanded the financing channels of the Group, the stable improvement of management level and the continued optimisation of corporate governance structure also contributed to the achievement of various operating goals set by the Board.

RESULTS REVIEW

During the Reporting Period, the Group recorded a total revenue of approximately RMB472.1 million, representing a decrease of approximately 6.4% as compared to the year ended 31 December 2018 mainly due to the higher rainfall volume; gross profit of approximately RMB187.5 million for the year, representing a decrease of approximately 5.0% as compared to the year ended 31 December 2018; profit of approximately RMB104.5 million for the year, representing a decrease of approximately 13.1% as compared to the year ended 31 December 2018. The Board, after taking into consideration the Company's operating results, cash flows, financial position, capital requirement for business development and other conditions, proposed to distribute a dividend of RMB0.16 (tax inclusive) per Share to Shareholders, in order to give back to their long-term support to the Company.

PRINCIPAL BUSINESS OF WATER SUPPLY

During the Reporting Period, the Company persisted in the water supply operating policy of "safe, efficient and orderly" to maintain the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) under sound operation. In particular, facing the unprecedented challenges of high turbidity and quantity of water source after the super typhoon "Lichma" in August 2019, the Company launched a water quality emergency plan of "precise warning, fine handling, strict monitoring and multi-party cooperation" and passed the double tests of high turbidity and high water volume, with all the measurement values of ex-factory water reaching the national drinking water hygiene standard and the index of modern water plant of Zhejiang Province, thus ensuring the safety of drinking water in the areas to which it supplied water.

In respect of the maintenance of water supply pipelines, the Company strengthened on-foot inspection, increased monitoring on projects and closely followed up the key construction projects around the pipelines. The Company enhanced information network security through optimising and adjusting the network structure, established data centers and realising mutual back-up among the centers in different places, deepening the virtualization application of servers and successfully passing the re-evaluation of the three-level protection standard of industrial control system.

CONSTRUCTION OF PROJECTS

During the Reporting Period, all members of the Company worked together to tackle difficulties to effectively promote the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), both of which were Zhejiang Province Key Construction Project (浙江省重點建設項目). In particular, the breakthrough of Huangmao Mountain tunnel and Liusha Mountain tunnel of the Taizhou Water Supply System (Phase III) was completed half a year earlier than the schedule as prescribed in the contract. As to the Taizhou Water Supply System (Phase IV), construction of 15 work-planes of the tunnel group has been fully implemented; construction of the foundation treatment and the complex building of the water purification plant has been completed; and the water diversion pipeline construction has commenced. After the completion of these two major water supply systems, the Group will greatly expand the business of supplying tap water to end users.

Chairman's Statement

FINANCING

On 31 December 2019, the H shares of the Company were listed on the Main Board of the Stock Exchange, and the Company became the first listed company among the state-owned enterprises in Taizhou.

The Company raised net proceeds of approximately HK\$167.5 million from the Initial Public Offering. The successful listing will bring more diversified financing channels for the corporate development of the Company.

While accessing the capital market, the Group gave full play to the financing functions of various entities within itself to strengthen the cooperation with banks and other financial institutions with focus on the implementation of granting conditions of loans and the loan contracts. During the Reporting Period, Taizhou South Bay Water Supply obtained bank facility of RMB1.8 billion. As at 31 December 2019, the Group had obtained bank facility of RMB15.95 billion, effectively satisfying the financing requirements of its development.

CORPORATE MANAGEMENT AND CONTROL

The Company strengthened its management and enhanced the efficiency of internal control. The Company comprehensively rationalised and improved the management and control systems, increased strategies and measures of risk prevention, and supplemented and amended various management systems. In 2019, the Group re-established four Board committees, namely the Nomination Committee, the Remuneration Committee, the Audit Committee and the Strategy Committee, each with corresponding terms of reference to emphasize the duties of the specified committees. At the same time, the Group has amended the Articles of Association, the Procedural Rules of the General Meeting, the Procedural Rules of the Board and the Procedural Rules of the Supervisory Committee. The Company strives to build a sound corporate governance system through strict implementation of the Procedural Rules of the Board as well as various regulations and rules, to improve the supervision mechanism for the exercise of power and further enhance the operations of systems.

OUTLOOK

The ecological civilization construction of China has entered into a new era. With the implementation of various policies in relation to ecological environment, the environmental protection industry will have more space for development. In 2020, the first year after the Initial Public Offering, the Group will further extend the industrial chain business, explore the development of the environmental protection industry and expand the environmental protection industry to cultivate new profit growth points for the Group. In the meantime, the Group will scientifically and efficiently promote the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), the two Zhejiang Province key construction projects, to give full play of their synergies, strive to improve internal management and control standard and standardise corporate governance, and ensure the normal operation of funds as well as stable and orderly management, with an aim to achieve high-quality development of the Company.

APPRECIATION

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

Mr. Yan Chuanhua

Chairman

Taizhou, the PRC

27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY OVERVIEW

As one of the most water deficient countries in the world, China will not have a change in the circumstance of uneven water distribution and low per capita water availability in the short term. The water industry is a core part of China's public service and environmental industry, and supply of raw water and production and supply of municipal water and tap water are two key components of the industry value chain. With its social and economic development, rising urbanisation rate and expanding non-governmental financing, China will have a larger water supply gap and a greater future demand for reliable and safe water.

China's water industry has continuously enjoyed strong policy support in recent years. The Chinese government has enacted a series of incentive policies such as the 13th Five-Year Plan For National Municipal Infrastructure Construction (《全國城市市政基礎設施建設「十三五」》) to support the development of municipal water and raw water supply market. In 2018, Zhejiang provincial government announced the Action Plan for Zhejiang Greater Bay Area

Construction (《浙江省大灣區建設行動計劃》) to greatly develop the economic zone covering Hangzhou, Ningbo, Wenzhou, Huzhou, Jiaxing, Shaoxing, Zhoushan and Taizhou. As population in these regions increases, the expected construction and growth of such regions will boost the municipal water and raw water supply market. In the meantime, Taizhou government issued the Taizhou Bay Area Economic Development Pilot Area Construction Action Plan (《台州灣區經濟發展實驗區建設行動計劃》) and the Industrial Development Plan of Taizhou Bay Area (《台州灣區產業發展規劃》) to further promote the development of greater bay area in Taizhou. All of these efforts aim to improve the infrastructure of Taizhou, and also stimulate the total water demand of the city.

Management Discussion and Analysis

DEVELOPMENT STRATEGIES AND OUTLOOK

In 2019, while operating the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) in a sustainable manner, the Group advanced its own development through the extension of the water supply network and geographic coverage in Taizhou. In order to enhance the stability and security of water supply and resolve the general water shortage issue in the Taizhou Bay Economic Zone and the South Area of Taizhou, the Group had obtained approval from the Taizhou Development and Reform Commission (台州發展和改革委員會) to develop the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), both of which were accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目). The Group strengthened these two on-site project management and focused on the quality control to ensure that the projects will complete and commence trial operation as scheduled. Upon the completion and operation of these projects, the Group will witness a great improvement of raw water and tap water supply capacity.

While consolidating its own strength, the Group also actively expanded its downstream business to build a complete industry value chain. During the Reporting Period, the Group was responsible for tap water supply to villages and towns of Zeguo Town, Wenling City, and the geographic coverage of supplying tap water directly to end users was relatively limited. Upon the completion of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), the Group intends to apply for the relevant permit to offer tap water directly to end-users, which will drive the Group's tap water supply capacity and profitability to a new level.

BUSINESS REVIEW

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

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



construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) in February 2018 and November 2018, respectively.

1. Raw Water Supply Project

The designed water supply capacity of Taizhou Water Supply System (Phase I) is 250,000 tonnes per day, and the raw water is supplied to local municipal water service providers and Wenling Zeguo Water Supply Co., Ltd. ("**Wenling Zeguo Water Supply**", a wholly-owned subsidiary of the Company). The raw water supply capacity of Taizhou Water Supply System (Phase II) is 490,000 tonnes per day, of which 380,000 tonnes per day is supplied to Taizhou Water Treatment Plant of the Group. For the year ended 31 December 2019, the raw water sales volume was 108.2 million tonnes, representing a decrease of approximately 3.3% as compared with 111.9 million tonnes for the year ended 31 December 2018. Such decrease was primarily attributable to the higher rainfall volume in 2019 as compared with 2018. According to the information of Taizhou City Water Information Release Center (台州市水情發佈中心), the average rainfall volume in Taizhou increased by 32.6% from 1,452.3 mm in 2018 to 1,925.9 mm in 2019. Our customers may purchase water from local small to medium-sized reservoirs. The higher rainfall volume led to the increase in water stored in the small to medium-sized reservoirs, which reduced the customers' demand for our water supply. At the same time, with the higher rainfall volume, end users' water demand also decreased.

Management Discussion and Analysis

2. Municipal Water Supply Project

Taizhou Water Treatment Plant of the Taizhou Water Supply System (Phase II) has a designed municipal water supply capacity of 366,000 tonnes per day and is responsible for selling municipal water to local municipal water service providers. For the year ended 31 December 2019, municipal water sales volume was 125.5 million tonnes, representing a decrease of approximately 10.0% as compared with 139.4 million tonnes for the year ended 31 December 2018. Such decrease was caused by the higher rainfall volume in 2019 as compared with 2018, which led to the increase in water stored in the reservoirs of the Group's customers, which are small to medium in size, and therefore decreased their demand for municipal water supply.

3. Tap Water Supply Project

As at 31 December 2019, the Group was responsible for supplying tap water to end-users of Zeguo Town (including commercial users, government authorities, industrial users and residential households in Zenguo Town, Wenling City). For the year ended 31 December 2019, tap water sales volume was 10.4 million tonnes, representing a decrease of approximately 3.7% as compared with 10.8 million tonnes for the year ended 31 December 2018.

4. Installation Services

In connection with tap water supply services, the Group undertakes water pipeline installation works to connect new end-users to our pipeline network and charges an installation fee for such services. The "One account, One water meter (一戶一錶)" water meter renovation projects have further expanded the Group's installation business. For the year ended 31 December 2019, revenue from installation services amounted to RMB10.9 million, representing an increase of approximately 58.0% as compared with RMB6.9 million for the year ended 31 December 2018.

5. Construction Project

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

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

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

As at 31 December 2019, foundation formation works and laying of water tunnels and pipelines of the Taizhou Water Supply System (Phase III) were under way, while foundation formation works and laying of water tunnels of the Taizhou Water Supply System (Phase IV) have commenced.

Management Discussion and Analysis

FINANCIAL REVIEW

1 Analysis of Key Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Continuing Operations

1.1 Revenue

Revenue of the Group decreased by RMB32.2 million or 6.4%, from approximately RMB504.3 million for the year ended 31 December 2018 to approximately RMB472.1 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water decreased by RMB1.4 million or 1.2%, from approximately RMB112.4 million for the year ended 31 December 2018 to approximately RMB111.0 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of raw water from 111.9 million tonnes to 108.2 million tonnes because of the higher rainfall volume in 2019 as compared with 2018, partially offset by the slight increase in the unit selling price of raw water by RMB0.03, which was mainly attributable to the decrease in the VAT rate for raw water business, from 11% to 10% since 1 May 2018 and further to 9% since 1 April 2019.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water decreased by RMB34.2 million or 10.1%, from approximately RMB340.0 million for the year ended 31 December 2018 to approximately RMB305.8 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of municipal water from 139.4 million tonnes for the year ended 31 December 2018 to 125.5 million tonnes for the year ended 31 December 2019 because of the higher rainfall volume in 2019 as compared with 2018.

(3) Tap water supply

Revenue of the Group generated from sales of tap water decreased by RMB0.5 million or 1.1%, from approximately RMB44.9 million for the year ended 31 December 2018 to approximately RMB44.4 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of tap water from 10.8 million tonnes in 2018 to 10.4 million tonnes in 2019, partially offset by the increase in the unit selling price of tap water by RMB0.12, which was attributable to the upward adjustment of the unit selling price of tap water since 1 January 2019.

Management Discussion and Analysis

(4) Installation services

Revenue of the Group generated from installation services increased by RMB4.0 million or 58.0%, from approximately RMB6.9 million for the year ended 31 December 2018 to approximately RMB10.9 million for the Reporting Period. Such increase was primarily attributable to the growth in the “One account, One water meter (一戶一錶)” water meter renovation projects of the Group, which further expanded the water meter installation business in Zeguo Town.

1.2 Cost of sales

The Group's cost of sales decreased by RMB22.4 million or 7.3%, from approximately RMB307.0 million for the year ended 31 December 2018 to approximately RMB284.6 million for the Reporting Period. The decrease was primarily attributable to the combined effect of:

- (i) the decrease in depreciation expenses by RMB15.0 million or 23.4%, from approximately RMB64.2 million for the year ended 31 December 2018 to approximately RMB49.2 million for the Reporting Period since certain water supply facilities and equipment arrived at the end of their estimated useful lives, and thus ceased to provide depreciation;
- (ii) an aggregate decrease in raw water procurement fee and water resources fee by RMB9.9 million or 6.6%, from approximately RMB150.0 million for the year ended 31 December 2018 to approximately RMB140.1 million for the Reporting Period, primarily due to the decrease in the purchase volume of raw water by 14.1 million tonnes;

(iii) a decrease in electricity expenses by RMB3.2 million or 10.6%, from approximately RMB30.1 million for the year ended 31 December 2018 to approximately RMB26.9 million for the Reporting Period, which was generally in line with the decrease in the water treatment volume; and

(iv) partial offsetting by an increase in installation cost by RMB2.9 million or 64.4%, from approximately RMB4.5 million for the year ended 31 December 2018 to approximately RMB7.4 million for the Reporting Period as a result of the increase in revenue from installation services.

1.3 Gross profit and gross profit margin

As a result of the above, our gross profit decreased by RMB9.8 million or 5.0%, from approximately RMB197.3 million for the year ended 31 December 2018 to approximately RMB187.5 million for the Reporting Period. Gross profit margin increased slightly from 39.1% for the year ended 31 December 2018 to 39.7% for the Reporting Period.

1.4 Other income and gains

Other income and gains decreased by RMB14.5 million or 52.9%, from approximately RMB27.4 million for the year ended 31 December 2018 to RMB12.9 million for the Reporting Period. Such decrease was primarily due to (i) the decrease in interest income from loans to related parties of RMB6.4 million as a result of the full repayment of the loans by the related parties in April 2018; and (ii) the decrease in government grants of RMB4.5 million mainly attributable to the government grants of RMB5.3 million received in 2018 to compensate the accumulated loss for Wenling Zeguo Water Supply before 31 May 2016, which was absent in 2019.

Management Discussion and Analysis

1.5 Administrative expenses

Administrative expenses increased by RMB9.2 million or 26.5%, from approximately RMB34.7 million for the year ended 31 December 2018 to approximately RMB43.9 million for the Reporting Period. Such increase was primarily due to (i) the increase in depreciation expenses, primarily attributable to the additional depreciation of right-of-use assets, mainly for parcels of land in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); and (ii) an increase in listing expenses in relation to the listing of the Company's H Shares (the "Listing").

1.6 Finance costs

Finance costs decreased by RMB11.2 million or 42.1%, from approximately RMB26.6 million for the year ended 31 December 2018 to approximately RMB15.4 million for the Reporting Period. Such decrease was primarily due to the combined effect of (i) the increase in interest on bank borrowings of RMB12.2 million; (ii) the decrease in interest on other borrowings of RMB2.0 million as a result of the repayment of finance lease payables of RMB22.8 million in January 2019; and (iii) the increase in interest capitalised of RMB21.3 million primarily as a result of the additional long-term bank loans of RMB646.0 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), interests of which were fully capitalised during the Reporting Period.

1.7 Income tax expense

Income tax expense decreased by RMB4.5 million or 11.1%, from approximately RMB40.5 million for the year ended 31 December 2018 to approximately RMB36.0 million for the Reporting Period. Such decrease was primarily due to the decrease in profit before tax.

1.8 Profit after tax and profit margin after tax

As a result of above, profit for the Reporting Period decreased by RMB15.8 million or 13.1%, from approximately RMB120.3 million for the year ended 31 December 2018 to RMB104.5 million for the Reporting Period. Profit margin after tax decreased from 23.9% for the year ended 31 December 2018 to 22.1% for the Reporting Period.

2 Analysis of Key Items of Consolidated Statement of Financial Position

2.1 Property, plant and equipment

As at 31 December 2018 and 2019, property, plant and equipment were approximately RMB1,037.1 million and RMB1,772.4 million, respectively, and mainly comprised construction in progress, water supply pipelines, buildings, machinery and equipment for water supply business. The increase was primarily attributable to the additions of construction in progress related to Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.2 Right-of-use assets

As at 31 December 2018 and 2019, right-of-use assets were approximately RMB264.0 million and RMB384.5 million, respectively. The increase was primarily attributable to the increase in lands used for the construction of the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.3 Inventories

As at 31 December 2018 and 2019, inventories were approximately RMB4.2 million and RMB4.4 million, respectively. Inventories mainly comprised raw materials including chemicals used in the water treatment process.

Management Discussion and Analysis

2.4 Trade receivables

As at 31 December 2018 and 2019, trade receivables were approximately RMB109.2 million and RMB104.0 million, respectively. Trade receivables are related to receivables from customers under the water supply business. The decrease in trade receivables was primarily attributable to the increased collection efforts on trade receivables during the Reporting Period.

2.5 Prepayments, other receivables and other assets

As at 31 December 2018 and 2019, prepayments, other receivables and other assets were approximately RMB19.0 million and RMB172.6 million, respectively. Such increase was primarily attributable to the net proceeds receivable from the Initial Public Offering of approximately RMB158.9 million.

2.6 Trade payables

As at 31 December 2018 and 2019, trade payables were approximately RMB68.5 million and RMB76.8 million, respectively. Trade payables mainly comprised outstanding payments for raw water procurement and water resources fee.

2.7 Other payables and accruals

As at 31 December 2018 and 2019, other payables and accruals were approximately RMB160.7 million and RMB299.8 million, respectively. Such increase was primarily attributable to the increase in other payables for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.8 Deferred government grants

As at 31 December 2018 and 2019, deferred government grants were approximately RMB36.5 million and RMB83.4 million, respectively. Such increase was primarily attributable to the receipt of government grants of RMB50.0 million in May 2019 as first installment of RMB400.0 million from the People's Government of Yuhuan City to reduce the cost of tap water for end-users in the areas covered by Taizhou Water Supply System (Phase IV) in the future.

2.9 Liquidity and financial resources

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

As at 31 December 2019, cash and bank balance of the Group was approximately RMB264.4 million (as at 31 December 2018: RMB314.4 million).

As at 31 December 2019, total borrowings of the Group were approximately RMB1,534.0 million (as at 31 December 2018: RMB1,004.8 million) and included bank and other loans, with 42.0% of bank and other loans at floating rates.

As at 31 December 2019, gearing ratio of the Group (total debts divided by total equity as at the year end) was 170.0% (as at 31 December 2018: 155.7%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB529.2 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

Management Discussion and Analysis

Significant Investments

For the year ended 31 December 2019, the Group did not hold any significant investment in equity interest in any other company (for the year ended 31 December 2018: Nil).

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2019, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures (for the year ended 31 December 2018: Nil).

Pledge of the Group's Assets

During the Reporting Period, the bank borrowings of the Group amounted to RMB1,534.0 million, which were secured by the Group's trade receivables, the right of charge on the future revenue generated by Taizhou Water Supply System (Phase I and Phase II), Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV). Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

Foreign Exchange Risk

The Group carries out business in the PRC and receives revenue and pays its costs and expenses in RMB. The net proceeds of approximately HK\$167.5 million from the Listing are denominated in HKD. The Group does not currently hedge its exposure to foreign currencies. The Group will continue to monitor foreign exchange movements to maximise the Group's cash values.

Contingent Liabilities

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

Subsequent Events

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

Save as disclosed above, after the financial year ended 31 December 2019, as at the date of this annual report, the Group has no other significant events that require additional disclosures or adjustments occurred after the Reporting Period.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 185 employees (31 December 2018: 181). During the Reporting Period, employees benefit expense amounted to approximately RMB56.4 million (for the year ended 31 December 2018: RMB55.2 million). The employees of the Group are generally remunerated by way of fixed salary, and are also entitled to a performance based bonus, paid leave and various subsidies. During the Reporting Period, the Group did not experience any significant labour disputes causing any material impact on its normal business operations.

INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares were listed on the Main Board of the Stock Exchange on 31 December 2019. The total net proceeds of approximately HK\$167.5 million after deducting professional fees, underwriting commissions and other related Listing expenses (the "**Net Proceeds**") will be allocated for utilisation in accordance with the Prospectus.

The Board was not aware of any material change to the planned use of proceeds from the Initial Public Offering as at the date of this annual report.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

EXECUTIVE DIRECTORS

Mr. Yan Chuanhua (顏傳華), aged 52, is the executive Director and Chairman of our Company. He joined our Company in August 2008. Mr. Yan is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group. He also serves as the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Yan has over 29 years of experience in the management, operation and development of water-related business and water conservancy projects. From August 1990 to August 2008, Mr. Yan served at various governmental water conservancy and resources bodies, where he was responsible for construction and management of water conservancy projects. Mr. Yan began his career as an officer of Taizhou Water Resources Bureau (台州市水利局) from August 1990 to October 1996. He then served as a deputy section chief of water conservancy and hydropower construction planning section (tideland reclamation and cultivation section)* (水利水電建設計劃科(海塗圍墾科)) of Taizhou Water Conservancy Electric Power Bureau* (台州市水利電力局) from October 1996 to August 1999. In August 1999, Mr. Yan became the division chief of construction planning (tideland reclamation and cultivation) division* (建設計劃(海塗圍墾)處) of Taizhou Water Conservancy Electric Power Bureau. In December 2000, Mr. Yan became the deputy bureau director of Taizhou Water Conservancy Electric Power Bureau. From September 2001 to August 2008, Mr. Yan served as the deputy bureau director of Taizhou Water Resources Bureau and was appointed as a member of the leading party members' group of Taizhou Water Resources Bureau. Mr. Yan served as the vice Chairman and general manager of our Company between September 2008 and March 2010, responsible for the management and operation of the Company's business and formulating the Company's management system and policies. Since March 2010, Mr. Yan has been appointed as the Chairman of our Company.

Mr. Yan obtained a bachelor's degree of engineering, majoring in civil and structural engineering from Zhejiang University (浙江大學) in July 1990. He received a master's degree of public administration from Illinois Institute of Technology, the United States in July 2004. Mr. Yan was accredited as a certified senior engineer by the Personnel Department of Zhejiang Province* (浙江省人事廳) in December 2008.

Mr. Zhang Junzhou (章君周), aged 57, is the executive Director, vice Chairman and general manager of our Company. He joined our Company in December 2014. Mr. Zhang is primarily responsible for formulating the overall corporate strategies and overseeing the management of business and operation of our Group. He also serves as the chairman and general manager of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Zhang has over 26 years of experience in corporate and business management. From August 1980 to August 1983 and from August 1985 to August 1987, Mr. Zhang worked as a mathematics teacher of Linhai City Baishuiyang Middle School* (臨海市白水洋中學) (formerly known as Linhai City Shuanggang District Middle School* (臨海市雙港區中學)). He then served as a teacher at Linhai Normal School* (臨海師範學校) from July 1989 to April 1993. Mr. Zhang became the office director of Linhai Normal School in April 1993 and subsequently served as the deputy dean of Linhai Normal School from March 1997 to October 2000. From November 2000 to September 2002, Mr. Zhang worked at Taizhou College* (台州學院). Mr. Zhang then served as a member of the leading party members' group of Taizhou Culture and Sports Bureau* (台州市文化體育局) from September 2002 to April 2004. Mr. Zhang has also served as the deputy general director of the Taizhou teachers schools relocation leading group construction headquarter* (台州師專搬遷領導小組工程建設指揮部) in June 1998; and the executive deputy general director of the Taizhou sports center construction leading group construction headquarter* (台州市體育中心工程建設領導小組建設指揮部) in October 1999, where he was responsible for management of construction projects. Later from April 2004 to June 2014, Mr. Zhang served as a deputy general manager of Taizhou

Biographies of Directors, Supervisors and Senior Management

Social Development Investment Company Limited and was responsible for the company's operation and management of construction projects. From June 2014 to December 2014, Mr. Zhang worked as the associate consultant of Taizhou People's Government Office. Mr. Zhang joined our Company in December 2014, and was subsequently appointed as our Director, vice Chairman and general manager in April 2015.

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

NON-EXECUTIVE DIRECTORS

Mr. Wang Haibo (王海波), aged 57, is the non-executive Director of our Company. He joined our Company as a Director in June 2019. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Wang has over 30 years of experience in corporate management. From August 1984 to July 1989, Mr. Wang served as a teacher in Zhejiang Dianda Yuhuan Workstation* (浙江廣播電視大學玉環工作站) (currently known as the Yuhuan College, Zhejiang Open University* (浙江廣播電視大學玉環學院)). From August 1989 to March 1999, he served as the officer of the adult education department and subsequently the officer, the section chief of the human resources department and the member of leading party member's group of Yuhuan County Education Commission* (玉環縣教委). Mr. Wang has held various positions at Taizhou Urban Construction since June 1999, including: (i) deputy office director from June 1999 to August 2001; (ii) office director from August 2001 to August 2003; (iii) manager of the project management department from August 2003 to September 2006, responsible for investment management of the company and its affiliates; (iv) member of the leading party members' group and the leader of discipline inspection team from September 2006 to August 2011; (v) deputy general manager and a member

of the leading party members' group from August 2011 to April 2019, responsible for management of party affairs, administrative and human resources of the company; and (vi) senior manager since April 2019, responsible for management and coordination of directors and supervisors assigned by the company to its affiliates. Mr. Wang served as the supervisor of Taizhou Water Resources Investment Development Co., Ltd. since January 2017. He served as the director of Zhejiang Taizhou Expressway Group Co., Ltd. since August 2019.

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

Mr. Wang Haiping (王海平), aged 58, is the non-executive Director of our Company. He joined our Company as a Director in July 2002. Mr. Wang is primarily responsible for providing professional advice and judgment to the Board.

Mr. Wang has over 38 years of experience in finance and business management. From August 1981 to September 2001, Mr. Wang held various positions in Zhejiang Vacuum Equipment Group Co., Ltd. (浙江真空設備集團有限公司), including: (i) accounting staff and subsequently an accounting manager from August 1981 to April 1992; (ii) deputy section chief of finance section from April 1992 to June 1994; (iii) head of finance department from June 1994 to August 1997; (iv) assistant general manager, head of finance department and subsequently the senior accountant from August 1997 to September 2001. Mr. Wang joined Taizhou Urban Construction as a deputy general manager of the planning and finance department in September 2001, and subsequently served as: (i) planning and finance department manager between August 2003 and August 2013; and (ii) the chief accountant since September 2013.

Biographies of Directors, Supervisors and Senior Management

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

Ms. Fang Ya (方亞), aged 37, is the non-executive Director of our Company. She joined our Company as a Director in April 2015. Ms. Fang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Fang has over 11 years of experience in community works management and coordination. Ms. Fang was employed by Taizhou Yadong Cement Manufacturing Co., Ltd.* (台州市亞東水泥製造有限公司) (currently known as Taizhou Shangfeng Cement Co., Ltd.* (台州上峰水泥有限公司)) from April 2008 to June 2011 and was responsible for office administrative works. During the period from July 2011 to November 2012, Ms. Fang was appointed as a village official of Zhangan Street Office* (章安街道辦事處) and was responsible for assisting the village secretary in handling day-to-day works. Since December 2012, Ms. Fang has been an officer at Huangyan District Budgeting Center* (黃岩區財政預算編製中心) and is responsible for handling day-to-day works of the economic development section.

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

Mr. Yu Yangbin (余陽斌), aged 34, is the non-executive Director of our Company. He joined our Company as a Director in January 2019. Mr. Yu is primarily responsible for providing professional advice and judgment to the Board.

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

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

Ms. Huang Yuyan (黃玉燕), aged 47, is the non-executive Director of our Company. She joined our Company as a Director in March 2017. Ms. Huang is primarily responsible for providing professional advice and judgment to the Board.

Ms. Huang has over 28 years of experience in financial management. She served as an officer at Taizhou Luqiao District Market Supervision Administrative Bureau* (台州市路橋區市場監督管理局) from August 1991 to July 2016. Since July 2016, Ms. Huang has been the deputy general manager of Taizhou Luqiao Public Assets and is responsible for financial management.

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

Mr. Yang Yide (楊義德), aged 72, is the non-executive Director of our Company. He joined our Company as a Director in March 2011. Mr. Yang is primarily responsible for providing professional advice and judgment to the Board.

Biographies of Directors, Supervisors and Senior Management

Mr. Yang has over 22 years of experience in corporate governance. He served as the legal representative of (i) Wenling Zhijiang Property Management Co., Ltd.* (溫嶺市之江物業管理有限公司) from May 1997 to May 1999; (ii) Wenling Culture Development Co., Ltd.* (溫嶺市文化發展有限公司) from October 1997 to February 2004; (iii) Yunnan Tianyuan Mining Co., Ltd.* (雲南天源礦業有限公司) from August 2006 to March 2010; and (iv) Wenling Zhijiang Boutique Commercial Building Co., Ltd.* (溫嶺市之江精品商廈有限公司) from May 1999 to July 2002.

Mr. Yang has also served as director of other companies, including: (i) chairman of the board of directors of Kunming Zhijiang Real Estate Co., Ltd.* (昆明市之江置業有限公司) from June 2003 to October 2009; (ii) executive director and general manager of Qufeng Holdings since August 2010; and (iii) director of Taizhou Development from August 2017 to September 2018.

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

Mr. Guo Dingwen (郭定文), aged 57, is the non-executive Director of our Company. He joined our Company as a Director in October 2018. Mr. Guo is primarily responsible for providing professional advice and judgment to the Board.

Mr. Guo has over 15 years of experience in financial management. He was appointed as the director and deputy general manager (finance department) of Kunming Zhijiang Real Estate Co., Ltd. from November 2004 to April 2018, responsible for finance management of the department. Since May 2018, he has been a director of Kunming Zhijiang Real Estate Co., Ltd..

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zheng Jianzhuang (鄭健壯), aged 55, is an independent non-executive Director of our Company. He was appointed as a Director in March 2016. Mr. Zheng is responsible for providing objective and independent opinion on matters decided by the Board.

From August 1985 to June 2009, Mr. Zheng worked as a teacher at Hangzhou Vocational and Technical College* (杭州職業技術學院). Mr. Zheng has been serving as a teacher and the executive vice-principal of the business school of Zhejiang University City College (浙江大學城市學院) since June 2009 and June 2015, respectively.

Mr. Zheng received a doctor of philosophy degree of administration, majoring in management science and engineering, from Zhejiang University in June 2005. He was accredited as a professor by the Personnel Department of Zhejiang Province in December 2007.

Ms. Lin Suyan (林素燕), aged 46, is an independent non-executive Director of our Company. She was appointed as a Director in May 2018. Ms. Lin is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Lin has been a teacher at Zhejiang University of Technology (浙江工業大學) since April 2003. She was the head of financial management faculty of the School of Economics and Management of Zhejiang University of Technology from December 2013 to January 2016 and has been the executive head of the master of professional accounting (MPACC) project center of Zhejiang University of Technology since April 2018.

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

Biographies of Directors, Supervisors and Senior Management

Ms. Hou Meiwen (侯美文), aged 44, is an independent non-executive Director of our Company. She was appointed as a Director in October 2017. Ms. Hou is responsible for providing objective and independent opinion on matters decided by the Board.

Ms. Hou has over 19 years of experience and practice in legal and business operations. Ms. Hou worked as a paralegal and lawyer at Zhejiang Sunshine Law Firm* (浙江陽光時代律師事務所) between October 2000 and November 2003. She then became a partner at Zhejiang Saint Joint Law Firm (浙江聖約翰律師事務所) from December 2003 to September 2004. Ms. Hou worked as a lawyer at Grandall Law Firm (Hangzhou) (國浩律師(杭州)事務所) since October 2004 and is currently a partner.

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

Mr. Wang Yongyue (王永躍), aged 45, is an independent non-executive Director of our Company. He was appointed as a Director in May 2018. Mr. Wang is responsible for providing objective and independent opinion on matters decided by the Board.

Mr. Wang has been working as a teacher at Zhejiang Gongshang University (浙江工商大學) since May 2007.

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

Mr. Li Wai Chung (李偉忠), aged 42, is an independent non-executive Director of our Company. He was appointed as a Director in June 2019. Mr. Li is responsible for providing objective and independent financial opinion on matters decided by the Board. Mr. Li is the Director who has the appropriate professional qualifications and related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules.

Mr. Li has extensive experience in accounting, corporate finance and finance management. Mr. Li was an audit manager of Deloitte China (including Deloitte Touche Tohmatsu CPA and Hong Kong Deloitte Touche Tohmatsu) from October 2005 to April 2006. From April 2006 to July 2016, he served as the vice president, secretary of the board, assistant president, company secretary and qualified accountant of Shanghai Prime Machinery Company Limited (上海集優機械股份有限公司), a company listed on the Stock Exchange (stock code: 2345). From August 2016 to September 2017, Mr. Li served as the general manager of investment department of Lens International (HK) Limited. From October 2017 to October 2018, Mr. Li worked at Shanghai Yongxuan Venture Capital Management Co., Ltd.* (上海永宣創業投資管理有限公司). He also served as the general manager of Shenzhen Youxin Consulting Management Co., Ltd.* (深圳友信顧問管理有限公司) since October 2017.

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

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

Biographies of Directors, Supervisors and Senior Management

SUPERVISORS

Ms. Lin Ying (林穎), aged 42, joined our Company as an external Supervisor and the chairman of Supervisory Committee in October 2018. Ms. Lin is responsible for supervising the Board and senior management.

Ms. Lin worked at the finance department of Zhejiang Jimin Pharmaceutical Co., Ltd.* (浙江濟民製藥股份有限公司) from January 1998 to March 2006, and subsequently served as the chief financial officer of Zhejiang Fengli Intelligent Technology Co., Ltd.* (浙江豐立智能科技股份有限公司) from April 2006 to December 2009. She then served as the chief financial officer of Taizhou Luqiao Public Assets from January 2010 to July 2016, and subsequently the head of planning and finance department of Taizhou Rail Transit Group Co., Ltd.* (台州市軌道交通集團有限公司) from August 2016 to September 2018. Since October 2018, Ms. Lin has been the chairman of the supervisory committee of Taizhou State-owned Capital Operation Group Co., Ltd.* (台州市國有資本運營集團有限公司).

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

Mr. Lu Huaping (盧華平), aged 36, joined our Company as an external Supervisor in July 2017. Mr. Lu is responsible for supervising the Board and senior management.

Mr. Lu worked in the personal insurance sales department of China Life Insurance Company Ltd., Taizhou Branch, from July 2008 to February 2011. He then worked at the interactive business department of China Life Property & Casualty Insurance Company Limited, Taizhou Centre Branch, from February 2011 to November 2013, responsible for insurance sales and management. He was employed by the investment department of Taizhou SAIG from November

2013 to May 2017. Since May 2017, Mr. Lu has been an expatriate supervisor of Taizhou State-owned Capital Operation Group Co., Ltd.*.

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

Mr. Chen Guojun (陳國軍), aged 56, joined our Company in July 1997 and was appointed as the employee representative Supervisor in June 1999. Mr. Chen is responsible for supervising the Board and senior management.

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

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

Biographies of Directors, Supervisors and Senior Management

Mr. Xu Junwei (徐軍偉), aged 44, completed the bachelor of civil engineering program of Zhejiang University of Technology (浙江工業大學) in June 2005 and further obtained a master degree in engineering, specializing in hydraulic engineering, from Hohai University (河海大學) in December 2015. He was also accredited as a hydraulic engineer by the Taizhou Personnel Bureau* (台州市人事局) and a municipal public works grade II instructor (市政公用工程二級建造師) by the Department of Housing and Urban-Rural Development of Zhejiang Province* (浙江省住房和城鄉建設廳) in December 2003 and September 2009, respectively.

Mr. Xu has over 23 years of experience in the water supply industry. He has served as: (i) a technician of the predecessor company of the Company from August 1996 to September 2000; (ii) an assistant manager of Zeguo branch of the Company from February 2001 to December 2002; (iii) a manager of the Zeguo branch of our predecessor company from January 2003 to December 2006; and (iv) a manager of Wenling Zeguo Water Supply Co., Ltd.* (溫嶺市澤國自來水有限公司), a wholly-owned subsidiary of the Company, from January 2007 to August 2008. He has also worked at the engineering division of the Supervision Division of Taizhou Second Phase Water Supply Project (台州二期供水工程建設指揮部) from August 2008 to October 2010. Mr. Xu has been the manager of the raw water production department of our Company since October 2010. He has also been serving as a director of Wenling Zeguo Water Supply Co., Ltd. since October 2014.

SENIOR MANAGEMENT

Mr. Pan Gang (潘剛), aged 49, is the deputy general manager of our Company. He joined our predecessor company in February 1994 and is primarily responsible for the management of water supply business and labour union of our Group. He also serves as the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Mr. Pan has over 25 years of experience in the operation of water-related business. From February 1994 to April 1996, Mr. Pan worked at the engineering technology department of the Huangjiaowen Joint Water Supply Engineering Headquarter* (黃椒溫聯合供水工程總指揮部) of our Predecessor Company. From April 1996 to February 2001, he first served as the director of the pumping station management center of our Predecessor Company and subsequently became the director of the control office of our Company in August 1999. From February 2001 to September 2010, Mr. Pan served as the manager of the corporate management department of our Company. From October 2005 to December 2008, he was responsible for the on-site management of the tap water section of the Taizhou Water Supply System (Phase II), and the trial operation management of Taizhou Water Treatment Plant. Mr. Pan became the deputy general manager of our Company in March 2011.

Mr. Pan graduated from the Correspondence Academy of Party School of the Central Committee of C.P.C in December 1999, majoring in business administration. Mr. Pan was accredited as an engineer by Taizhou Personnel Bureau in December 1999.

Biographies of Directors, Supervisors and Senior Management

Mr. Pan Huadong (潘華東), aged 44, is the deputy general manager of our Company. He joined our Company in April 2016 and is primarily responsible for project coordination and publicity of our Group.

Mr. Pan has over 23 years of experience in corporate governance. Mr. Pan served as the office secretary of the party committee, the deputy secretary and the secretary of the youth league committee of Yuanqiao Town, Huangyan District, Taizhou* (台州市黃岩區院橋鎮) from October 1996 to December 2001. From December 2001 to August 2008, Mr. Pan served as the member of party committee, the deputy secretary of the party committee and the commissioner for discipline inspection committee of Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮). From August 2008 to September 2011, he served as the township chief of People's Government of Yutou Township, Huangyan District, Taizhou* (台州市黃岩區嶼頭鄉人民政府). He then served as the town mayor of Ningxi Town, Huangyan District, Taizhou* (台州市黃岩區寧溪鎮) from September 2011 to November 2014. From November 2014 to June 2016, he was the party secretary and bureau director of Taizhou Administration Administrative Law Enforcement Bureau, Huangyan Branch* (台州市城市管理行政執法局黃岩分局). Since June 2016, he has been the deputy general manager of our Company. Since September 2018, Mr. Pan has been the chairman of Taizhou Environmental Development. He also serves as a director of Binhai Water.

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

Mr. Bao Liwan (鮑立萬), aged 47, is the deputy general manager of the Company. He joined our Group in August 1996 and is primarily responsible for the management of water supply business of our Group.

Mr. Bao has over 23 years of experience in corporate governance. Mr. Bao joined our predecessor company in August 1996 and served at the production technology department till August 1999. He has held various positions at our Company, including: (i) director of the information processing center from August 1999 to February 2001; (ii) director of the information processing center of the corporate governance department from February 2001 to January 2003; and (iii) the chief engineer from January 2003 to July 2011. Since July 2011, Mr. Bao has been the chairman of the board of directors and the general manager of Taizhou City Water. Since April 2017, Mr. Bao has been the deputy general manager of our Company. Currently, he is also the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

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

Biographies of Directors, Supervisors and Senior Management

Ms. Chen Liying (陳麗英), aged 42, is the chief accountant, secretary of the Board and company secretary of the Company. She joined our Company in August 2001. Ms. Chen is primarily responsible for the financial and budget management of our Group.

Ms. Chen has over 19 years of experience in finance and accounting. Prior to joining the Company, she worked as an accountant at the finance department of Star Group Co., Ltd.* (星星集團有限公司) from July 2000 to July 2001. Ms. Chen joined our Company in August 2001 and worked in the finance department. She later became the manager of the planning and finance department in January 2003, and the deputy chief accountant and manager of the planning and finance department in May 2015. Since April 2018, Ms. Chen has been the chief accountant of our Company. Currently, she is also the director of two of our subsidiaries, namely Binhai Water and Taizhou South Bay Water Supply.

Ms. Chen obtained a bachelor's degree of administration, majoring in financial accounting, from Shijiazhuang Railway Institute* (石家莊鐵道學院) in June 2000. She received a master's degree of accounting from Shanghai University of Finance and Economics (上海財經大學) and Shanghai National Accounting Institute (上海國家會計學院) in June 2014. She was accredited as a senior accountant by the Human Resources and Social Security Department of Zhejiang Province in April 2011.

Mr. Xu Hailong (徐海龍), aged 50, is the deputy general manager of our Company. He joined our Company in February 2019. Mr. Xu is primarily responsible for the management of water conservancy construction projects of our Group.

Mr. Xu has over 26 years of experience in corporate and business management. He worked at Tiantai County Employment Management Service Division* (天台縣就業管理服務處) from August 1993 to October 1997. Mr. Xu served as assistant to the mayor and subsequently the deputy mayor of the People's Government of Baita Town, Xianju County* (仙居縣白塔鎮人民政府) from October 1997 to November 2001, and the mayor of the People's Government of Guanlu Town, Xianju County* (仙居縣官路鎮人民政府) from November 2001 to July 2004. Mr. Xu was appointed by the Party Group of the Communist Party of China of Water Resources Bureau of Taizhou City* (中國共產黨台州市水利局黨組) as the political commissar of Taizhou Water Administration Supervision Team* (台州市水政監察支隊) and the head of Water Affairs and Water Resources Division of Taizhou Water Resources Bureau* (台州市水利局水政水資源處) from March 2004 to January 2005. From January 2005 to April 2017, he served as the division director at Taizhou River Management Division* (台州市河道管理處) and office deputy director at Taizhou People's Government Flood Control and Drought Control Headquarter* (台州市人民政府防汛防旱指揮部). From April 2017 to March 2019, Mr. Xu served as the deputy general manager of Taizhou Urban Construction. From February 2019 to June 2019, Mr. Xu served as the Director of our Company. He has been the deputy general manager of our Company since May 2019.

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

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL BUSINESS

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

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statements of profit or loss and other comprehensive income on page 64 of this annual report.

DIVIDENDS DISTRIBUTION

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

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

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

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

The Board has resolved to declare a final dividend of RMB0.16 per Share (tax inclusive) in cash for the year ended 31 December 2019. The proposed final dividend is subject

Report of Directors

to the consideration and approval by the Shareholders at the forthcoming AGM. The final dividend is payable to the Shareholders whose names are listed in the register of members of the Company on Monday, 15 June 2020, in an aggregate amount of approximately RMB32 million. The final dividend will be denominated and declared in RMB. The final dividend on Domestic Share will be paid in RMB and on H Share will be paid in HKD. The relevant exchange rate for conversion shall be calculated by the average closing rate for converting RMB into HKD of the five business days prior to the date on which the dividend was declared (i.e. Friday, 5 June 2020) as quoted by the People's Bank of China. Once approved by the AGM, the final dividend is expected to be distributed on or before Thursday, 20 August 2020.

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

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

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

Report of Directors

TAX RELIEF

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

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 5 June 2020. The notice of the AGM will be published and dispatched to the Shareholders in due course in the manner as required by the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

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

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 5 May 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for attending the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 May 2020.

2. For determining the entitlement to the proposed final dividend

For determining the entitlement to the proposed final dividend subject to the approval by Shareholders at the AGM, the register of members of the Company will be closed from Thursday, 11 June 2020 to Monday, 15 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for receiving the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 June 2020.

BUSINESS REVIEW

A fair review of the business and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Group's business are provided in the "Management Discussion and Analysis" on pages 10 to 17 of this annual report. Description of the principal risks and uncertainties faced the Group can be found on pages 121 to 125 of this annual report. Particulars of important events affecting the Group that have occurred after 31 December 2019, if any, can also be found in the notes to the Consolidated Financial Statements.

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

Report of Directors

HIGH RISK FACTORS

The construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) is expected to complete in February 2022 and April 2022, respectively. During the construction period, delay in the construction works may occur due to factors beyond our control such as defaults of contractors, natural disasters, environmental hazards and industrial accidents, which will result in the delay in the completion of the construction and commencing time of operation of these two projects. Meanwhile, as the investment costs for these two projects are relatively high, the Group may incur additional costs and expenses due to the delay in construction. As at 31 December 2019, super typhoon “Lekima” of the year had no adverse effect on the projects under construction of the Company. We will further adopt measures to strengthen project management, especially the construction quality and safety management, procure the contractors to perform their contractual obligations to ensure a smooth project construction.

FINANCIAL SUMMARY

A summary of the Company’s results, assets and liabilities for the last four financial years are set out on page 128 of this annual report. Such summary does not form part of the audited consolidated financial statements.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

RELATIONSHIP WITH STAKEHOLDERS

Employees

As at the date of this annual report, we had a total of 185 employees. All of our employees are based in the PRC. Our employees are generally remunerated by way of fixed salary. The Group utilises an appraisal system for our employees and considers the appraisal results of individual employees in conducting their salary reviews, making promotion decisions and determining the amount of bonuses. We also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

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

Report of Directors

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

Customers

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

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

For the year ended 31 December 2019, the Group’s sales to its five largest customers accounted for 88.5% (2018: 90.0%) of the Group’s total sales and sales to the largest customer accounted for 29.6% (2018: 27.1%).

Suppliers

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

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

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

For the year ended 31 December 2019, purchases from the Group’s five largest non-construction related suppliers accounted for 97.7% (2018: 98.3%) of the Group’s total non-construction related purchases and purchases from the largest non-construction related supplier accounted for 79.2% (2018: 78.9%). For the year ended 31 December 2019, purchases from the Group’s five largest construction-related suppliers amounted to approximately RMB483.7 million (2018: RMB169.8 million).

Save as disclosed in this annual report, during the year ended 31 December 2019, none of the Directors or the Supervisors or any of their associates or any Shareholders (which, to the best knowledge of the Directors and Supervisors, own more than 5% of the number of issued Shares of the Company) had any interest in the Company’s five largest customers and suppliers.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements.

As at 31 December 2019, the issued share capital of the Company was 200,000,000 shares (of which 150,000,000 were Domestic Shares and 50,000,000 were H Shares).

Report of Directors

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out on page 67 in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

Pursuant to the relevant laws and regulations, as at 31 December 2019, the Company has distributable profit of RMB88.7 million (2018: RMB105.9 million), of which RMB32.0 million has been proposed as final dividend payment for the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at 31 December 2019 are set out in note 23 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

Report of Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management of the Company during the year ended 31 December 2019 and up to the date of this annual report are set out below:

Name	Position in the Company	Appointment date of current term
Directors		
Mr. Yan Chuanhua ⁽¹⁾	Chairman and executive Director	May 2018
Mr. Zhang Junzhou	Vice Chairman, executive Director and general manager	May 2018
Mr. Wang Haibo	Non-executive Director	June 2019
Mr. Wang Haiping	Non-executive Director	May 2018
Ms. Fang Ya	Non-executive Director	May 2018
Mr. Yu Yangbin	Non-executive Director	January 2019
Mr. Ye Jianhua ⁽²⁾	Non-executive Director	May 2018
Ms. Huang Yuyan	Non-executive Director	May 2018
Mr. Yang Yide	Non-executive Director	May 2018
Mr. Guo Dingwen	Non-executive Director	October 2018
Mr. Zheng Jianzhuang	Independent non-executive Director	May 2018
Ms. Lin Suyan	Independent non-executive Director	May 2018
Ms. Hou Meiwen	Independent non-executive Director	May 2018
Mr. Li Wai Chung	Independent non-executive Director	June 2019
Mr. Wang Yongyue	Independent non-executive Director	May 2018
Supervisors		
Ms. Lin Ying	Chairman of Supervisory Committee and external Supervisor	October 2018
Mr. Lu Huaping	External Supervisor	May 2018
Mr. Yu Changcheng ⁽³⁾	External Supervisor	May 2018
Mr. Chen Guojun	Employee representative Supervisor	May 2018
Mr. Zheng Jing ⁽⁴⁾	Employee representative Supervisor	May 2018
Senior management		
Mr. Pan Gang	Deputy general manager	May 2018
Mr. Pan Huadong	Deputy general manager	May 2018
Mr. Bao Liwan	Deputy general manager	May 2018
Ms. Chen Liying	Chief accountant, Board secretary and company secretary	May 2018
Mr. Xu Hailong	Deputy general manager	May 2019

Notes:

- (1) Mr. Yan Chuanhua tendered resignation as an executive Director on 19 March 2020 and the resignation will be effective from the conclusion of the AGM.
- (2) Mr. Ye Jianhua resigned as a non-executive Director of the Company on 10 March 2020.
- (3) Mr. Yu Changcheng resigned as a Shareholder representative Supervisor on 17 March 2020.
- (4) Mr. Zheng Jing resigned as a employee representative Supervisor on 17 March 2020.

Report of Directors

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

Biographical details of the Directors, Supervisors and senior management are set out on pages 18 to 26 of this annual report.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2019, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

Notes:

- (1) As at 31 December 2019, the Company had issued 200,000,000 Shares in total, including 150,000,000 Domestic Shares and 50,000,000 H Shares. The letter "L" denotes the person's long position in the Shares.
- (2) Qufeng Holdings Limited, which is owned as to 80% by Mr. Yang Yide, directly held 10,058,338 Domestic Shares. By virtue of the SFO, Mr. Yang Yide was deemed to have an interest in the Shares held by Qufeng Holdings Limited.

Report of Directors

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors or chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, the following persons (not being a Director, Supervisor and chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

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

Report of Directors

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Taizhou Jiaojiang Infrastructure Investment Company ⁽⁴⁾	Beneficial owner	Domestic Shares	22,222,893	14.82%	11.11%
Zhejiang International Business Group Co., Ltd. ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Zheshang Asset Management Co., Ltd.* ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou State-owned Assets Investment Group Co., Ltd. ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Taixin Asset Management Co., Ltd.* ⁽⁵⁾	Beneficial owner	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou Luqiao Public Assets Investment Management Co., Ltd.*	Beneficial owner	Domestic Shares	17,613,358	11.74%	8.80%
Qufeng Holdings Limited*	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Lipin Enterprise (Group) Co., Ltd.* ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Lipin Sanmin Culture Communication Co., Ltd.* ⁽⁶⁾	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Mr. Ying Wenhua ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Orient Fund Management Co., Ltd.*	Trustee	H Shares	4,860,000	9.72%	2.43%
Shanghai Industrial Investment (Holdings) Company Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%

Report of Directors

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Shanghai Industrial Investment Treasury Company Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Investment Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Industrial Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Infrastructure Holdings Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Triumph Power Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Holdings Ltd. ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Tech (Hong Kong) Limited ⁽⁷⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Yangtze River Delta Water Environment Investment Fund Limited ⁽⁷⁾	Beneficial owner	H Shares	12,500,000	25.00%	6.25%
Mr. Chung Chi Man ⁽⁸⁾	Interest in controlled corporation	H Shares	2,608,000	5.22%	1.30%
Billion Shine International Investment Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	2,608,000	5.22%	1.30%
Innovax Holdings Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	2,608,000	5.22%	1.30%
Ms. Lee Yin Har ⁽⁹⁾	Interest of spouse	H Shares	2,608,000	5.22%	1.30%

* For identification purpose only

Report of Directors

Notes:

- (1) As at 31 December 2019, the Company had issued an aggregate of 200,000,000 Shares, including 150,000,000 Domestic Shares and 50,000,000 H Shares.
- (2) Taizhou Urban Construction Investment Development Group Co., Ltd. is wholly-owned by Taizhou State-owned Capital Operation Group Co., Ltd.. By virtue of the SFO, Taizhou State-owned Capital Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Taizhou Urban Construction Investment Development Group Co., Ltd..
- (3) Zhejiang Huangyan Financial Development Company is a state-owned enterprise indirectly wholly-owned by the Finance Bureau of Huangyan District of Taizhou through its wholly-owned subsidiary, Taizhou Huangyan State-owned Assets Operation Group Co., Ltd.. By virtue of the SFO, each of the Finance Bureau of Huangyan District of Taizhou and Taizhou Huangyan State-owned Assets Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Zhejiang Huangyan Financial Development Company.
- (4) Taizhou Jiaojiang Infrastructure Investment Company is a state-owned enterprise wholly-owned by the Finance Bureau of Jiaojiang District. By virtue of the SFO, the Finance Bureau of Jiaojiang District is deemed to have an interest in the Domestic Shares held by Taizhou Jiaojiang Infrastructure Investment Company.
- (5) Zhejiang Taixin Asset Management Co., Ltd. is held as to 40% by Taizhou State-owned Assets Investment Group Co., Ltd. and as to 60% by Zhejiang Zheshang Asset Management Co., Ltd., which is in turn owned as to 69.16% by Zhejiang International Business Group Co., Ltd. By virtue of the SFO, each of Taizhou State-owned Assets Investment Group Co., Ltd., Zhejiang Zheshang Asset Management Co., Ltd. and Zhejiang International Business Group Co., Ltd., is deemed to have an interest in the Domestic Shares held by Zhejiang Taixin Asset Management Co., Ltd..
- (6) Shanghai Lipin Enterprise (Group) Co., Ltd. is wholly-owned by Shanghai Lipin Sanmin Culture Communication Co., Ltd. Shanghai Lipin Enterprise (Group) Co., Ltd. is in turn owned as to 99.70% by Mr. Ying Wenhua. By virtue of the SFO, each of Shanghai Lipin Sanmin Culture Communication Co., Ltd. and Mr. Ying Wenhua is deemed to be interested in the Domestic Shares held by Shanghai Lipin Enterprise (Group) Co., Ltd..
- (7) Shanghai Yangtze River Delta Water Environment Investment Fund Limited is held as to 40% by SIIC Environment Tech (Hong Kong) Limited, which is in turn wholly-owned by SIIC Environment Holdings Ltd.. SIIC Environment Holdings Ltd is held as to 6.36% by S.I. Infrastructure Holdings Limited and as to 37.92% by S.I. Triumph Power Limited, which is in turn wholly-owned by S.I. Infrastructure Holdings Limited. S.I. Infrastructure Holdings Limited is wholly-owned by Shanghai Industrial Holdings Limited, which is in turn owned as to 55.13% by Shanghai Investment Holdings Limited. Shanghai Investment Holdings Limited is wholly-owned by Shanghai Industrial Investment Treasury Company Limited, which is in turn wholly-owned by Shanghai Industrial Investment (Holdings) Company Limited. By virtue of the SFO, SIIC Environment Tech (Hong Kong) Limited, SIIC Environment Holdings Ltd, S.I. Triumph Power Limited, S.I. Infrastructure Holdings Limited, Shanghai Industrial Holdings Limited, Shanghai Investment Holdings Limited, Shanghai Industrial Investment Treasury Company Limited and Shanghai Industrial Investment (Holdings) Company Limited are deemed to have an interest in the H Shares held by Shanghai Yangtze River Delta Water Environment Investment Fund Limited.
- (8) Innovax Holdings Limited is owned as to 75% by Billion Shine International Investment Limited, which is wholly-owned by Mr. Chung Chi Man.
- (9) Ms. Lee Yin Har is the spouse of Mr. Chung Chi Man. By virtue of the SFO, Ms. Lee Yin Har is deemed to be interested in all the H Shares held by Mr. Chung Chi Man.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any other persons (other than the Directors, Supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Report of Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

To the knowledge of the Board, none of the Directors or Supervisors or their associates had any interests in any business which competes or is likely to compete, directly or indirectly, with the businesses of the Group for the year ended 31 December 2019.

ISSUANCE OF DEBENTURES

During the year ended 31 December 2019, no issuance of debentures was made by the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 33 to the consolidated financial statements.

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

CONTINUING CONNECTED TRANSACTIONS

Non-Exempt Continuing Connected Transactions

In the period from the Listing Date to 31 December 2019, the Group conducted a number of continuing connected transactions.

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

Pursuant to the said agreement, the Company shall provide Zhejiang Huangyan Water Supply with raw water supply services and payment shall be made every month based on the volume of raw water supplied. The annual caps for the sales of raw water under the Zhejiang Huangyan Water Supply Framework Agreement are RMB38,940,797; RMB41,270,133 and RMB41,828,556 for the three years ended/ending 31 December 2019, 2020 and 2021, respectively. During the Reporting Period, the sales of raw water to Zhejiang Huangyan Water Supply pursuant to the Zhejiang Huangyan Water Supply Framework Agreement was RMB38,733,000.

Report of Directors

(ii) Taizhou Luqiao Water Supply Framework Agreements

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

Pursuant to the Taizhou Luqiao Raw Water Supply Framework Agreement, the Company shall provide Taizhou Luqiao Water Supply with raw water supply services and payment shall be made every month based on the volume of raw water supplied. The annual caps for the sales of raw water under the Taizhou Luqiao Raw Water Supply Framework Agreement are RMB31,184,040; RMB32,088,561 and RMB32,423,715 for the three years ended/ending 31 December 2019, 2020 and 2021, respectively. During the Reporting Period, the sales of raw water to Taizhou Luqiao Water Supply pursuant to the Taizhou Luqiao Raw Water Supply Framework Agreement was RMB30,039,000.

Pursuant to the Taizhou Luqiao Municipal Water Supply Framework Agreement, the Company shall provide Taizhou Luqiao Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the Taizhou Luqiao Municipal Water Supply Framework Agreement are RMB64,707,146; RMB67,705,448 and RMB68,580,538 for the three years ended/ending 31 December 2019, 2020 and 2021, respectively. During the Reporting Period, the sales of municipal water to Taizhou Luqiao Water Supply pursuant to the Taizhou Luqiao Municipal Water Supply Framework Agreement was RMB64,319,000.

For details of the Zhejiang Huangyan Water Supply Framework Agreement and the Taizhou Luqiao Water Supply Framework Agreements, please refer to the Prospectus.

The annual caps for the transactions under the Zhejiang Huangyan Water Supply Framework Agreement and the Taizhou Luqiao Water Supply Framework Agreements (collectively referred to as the “**Non-exempt Continuing Connected Transactions**”) conducted by the Company after the Initial Public Offering have been approved by the Stock Exchange and are exempted from the requirement of independent Shareholders’ approval.

The independent non-executive Directors have reviewed the Non-exempt Continuing Connected Transactions and confirmed that during the year ended 31 December 2019:

- (i) the Non-exempt Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Company;

Report of Directors

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

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

B. Continuing connected transactions exempt from independent Shareholders' approval

- (i) Wenling Water Supply Framework Agreement
On 27 October 2019, Taizhou City Water Co., Ltd. ("**Taizhou City Water**"), a 82%-owned subsidiary of the Company, and Wenling

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

Pursuant to the said agreement, Taizhou City Water shall provide Wenling Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the Wenling Water Supply Framework Agreement are RMB111,833,000; RMB121,015,000 and RMB122,919,000 for the three years ended/ending 31 December 2019, 2020 and 2021, respectively. During the Reporting Period, the sales of municipal water to Wenling Water Supply pursuant to the Wenling Water Supply Framework Agreement was RMB104,683,000.

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

Report of Directors

Pursuant to the said agreement, Taizhou City Water shall provide Yuhuan Water Supply with municipal water supply services and payment shall be made every month based on the volume of municipal water supplied. The annual caps for the sales of municipal water under the Yuhuan Water Supply Framework Agreement are RMB47,794,000; RMB54,777,000 and RMB55,124,000 for the three years ended/ending 31 December 2019, 2020 and 2021, respectively. During the Reporting Period, sales of municipal water to Yuhuan Water Supply pursuant to the Yuhuan Water Supply Framework Agreement was RMB39,989,000.

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

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

C. *Exempt continuing connected transactions*

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

During the year under review, save for the transactions as set out above, no other transactions listed in Note 33 to the consolidated financial statements constituted a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

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

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

SIGNIFICANT CONTRACT

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

Report of Directors

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019 between the Company and a person other than a Director or Supervisor or any person engaged in the full-time employment of the Company.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

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

STAFF, EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2019, we had a total of 185 employees. All of our employees are based in the PRC. Our employees are generally remunerated by way of fixed salary, and also entitled to a performance-based bonus, paid leave and various subsidies. The Remuneration Committee was set up for reviewing the Company's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors, the Supervisors and five highest paid individuals for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Apart from the Initial Public Offering, the Company has not entered into any equity-linked agreement during the Reporting Period.

CHARITABLE DONATIONS

The donations made by the Group during the year ended 31 December 2019 amounted to RMB0.6 million.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to the date of this annual report.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

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

Report of Directors

The intended uses and the balance of the Net Proceeds as at 31 December 2019 are set out below:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Amount of Net Proceeds utilised up to 31 December 2019	Balance of Proceeds unutilised as at 31 December 2019	Intended timetable for use of the unutilised Net Proceeds
(i) For the construction of the Taizhou Water Supply System (Phase III)	HK\$150.75 million	90%	Nil	HK\$150.75 million	By/before 31 December 2021
(ii) For providing funding for our working capital and other general corporate purposes	HK\$16.75 million	10%	Nil	HK\$16.75 million	By/before 31 December 2021
Total	HK\$167.5 million	100%	Nil	HK\$167.5 million	By/before 31 December 2021

Since the Listing Date and up to the date of this annual report, the Net Proceeds had not yet been utilised. The Group will utilise the Net Proceeds in accordance with the intended purposes as set out in the Prospectus. The Board is not aware of any material change to the planned use of the Net Proceeds as at the date of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2019, the Group had not been involved in any material litigation nor arbitration and the Directors are not aware of any litigation or claims of material importance pending or threatened against the Group.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group strived to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Corporate Governance Code as its own code of corporate governance. The Corporate Governance Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from 1 January 2019 to 30 December 2019. For the year ended 31 December 2019 (i.e. the Listing Date), the Company has complied with the provisions set out in the Corporate Governance Code. Information on the corporate governance practices adopted by the Group is set out in the Corporate Governance Report on pages 47 to 58 of

this annual report. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the Corporate Governance Code.

AUDIT COMMITTEE

The Audit Committee, together with the management, had reviewed the accounting policies and practices adopted by the Group as well as the internal control matters, and had also reviewed the Group's consolidated financial statements for the year ended 31 December 2019.

AUDITOR

The consolidated financial statements of the Group for the ended 31 December 2019 have been audited by Ernst & Young.

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

On behalf of the Board
Mr. Yan Chuanhua
Chairman of the Board

Taizhou, the PRC, 27 March 2020

REPORT OF THE SUPERVISORY COMMITTEE

In 2019, in strict compliance with the applicable laws including the Company Law and the relevant requirements of the Articles of Association and the Procedural Rules of the Supervisory Committee of the Company, members of the Supervisory Committee have conscientiously performed their supervisory duties in the principle of good faith and acting in the best interest of the Company and Shareholders as a whole. The Supervisory Committee has actively carried out its work, attended the Board meetings and general meetings of the Company, and effectively supervised the legal compliance of the Company's operations, its financial condition and the performance of duties of the Directors and management of the Company to promote standardised operation of the Company.

I. Work of the Supervisory Committee

During the Reporting Period, the Supervisory Committee convened one meeting in accordance with relevant rules.

On 15 May 2019, the fourth meeting of the fourth session of the Supervisory Committee was convened, at which the "Proposal on the Company's 2018 Report on the Work of the Supervisory Committee" was reviewed and approved as a resolution of the meeting.

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

II. Independent Opinions on Relevant Matters of the Company During the Reporting Period

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

In 2019, the Supervisory Committee of the Company supervised the procedures for convening the general meetings and the Board meetings, resolutions thereof, the execution of the resolutions of general meetings and Board meetings, and performance of the senior management of the Company, under the authority conferred by the Company Law and the Articles of Association.

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

Report of the Supervisory Committee

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

The Supervisory Committee carefully reviewed relevant materials including the financial report for 2019 proposed to be submitted by the Board to the AGM, which were prepared under the Hong Kong Financial Reporting Standards and audited and issued with an unqualified opinion by the independent auditor. The Supervisory Committee is of the view that the report gives an objective and true view of the Company's financial condition and operating results.

In 2020, the Supervisory Committee will continue to strictly comply with the requirements of the relevant laws and regulations and the Articles of Association in conscientiously performing their supervisory duties, diligently enhancing supervision efforts and effectively safeguarding and protecting the interests of the Company and Shareholders. The Supervisory Committee will continue to work assiduously to promote the sustainable and healthy development of the Company.

By the order of the
Supervisory Committee

Lin Ying

Chairman of the Supervisory Committee

Taizhou, the PRC

27 March 2020

CORPORATE GOVERNANCE REPORT

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

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules since the Listing Date and complied with the applicable code provisions throughout the period from the Listing Date to the date of this annual report.

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

STRATEGIC OBJECTIVES AND BUSINESS MODEL

As a leading water supply service provider in Taizhou, the Group's principal businesses are supply of raw water, municipal water and tap water. At present, while operating the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) in a sustainable manner, the Group also advances its own development through the extension of the water supply geographic coverage in Taizhou and the water supply network by construction of the Taizhou Water Supply System (Phase III) and the Water Supply System (Phase IV). In addition, the Group actively explores environmental industry, expands industry chains and fosters its new profit growth sources.

BOARD OF DIRECTORS

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

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

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

Board Composition

The Board currently comprises 14 Directors, consisting of two executive Directors, seven non-executive Directors and five independent non-executive Directors. The members of the Board of the Company during the Reporting Period are listed as follows:

Name	Position in the Company
Mr. Yan Chuanhua (tendered resignation on 19 March 2020 and will be effective from the conclusion of the AGM)	Chairman and executive Director
Mr. Zhang Junzhou	Vice Chairman, executive Director and general manager
Mr. Wang Haibo	Non-executive Director
Mr. Wang Haiping	Non-executive Director
Ms. Fang Ya	Non-executive Director
Mr. Yu Yangbin	Non-executive Director
Ms. Huang Yuyan	Non-executive Director
Mr. Yang Yide	Non-executive Director
Mr. Guo Dingwen	Non-executive Director
Mr. Ye Jianhua (resigned on 10 March 2020)	Non-executive director
Mr. Zheng Jianzhuang	Independent non-executive Director
Ms. Lin Suyan	Independent non-executive Director
Ms. Hou Meiwen	Independent non-executive Director
Mr. Li Wai Chung	Independent non-executive Director
Mr. Wang Yongyue	Independent non-executive Director

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

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

Corporate Governance Report

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

Chairman and General Manager

Mr. Yan Chuanhua is the Chairman and Mr. Zhang Junzhou is the general manager of the Company (the “**General Manager**”). The Chairman and the General Manager are two different positions, and their duties are clearly separated as set out in the Articles of Association.

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

Independent Non-Executive Directors

Since the Listing Date and up to the date of this annual report, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

Corporate Governance Report

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

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

Corporate Governance Report

The training records of the Directors for the year ended 31 December 2019 are summarised as follows:

Name of Directors	Attending training, briefings, seminars, conferences and workshops relevant to the Company's industry and business, director's duties and/or corporate governance	Reading news alerts, newspapers, journals, magazines and publications relevant to the Company's industry and business, director's duties and/or corporate governance
Executive Directors		
Mr. Yan Chuanhua [#]	√	√
Mr. Zhang Junzhou	√	√
Non-executive Directors		
Mr. Wang Haibo	√	√
Mr. Wang Haiping	√	√
Ms. Fang Ya	√	√
Mr. Yu Yangbin	√	√
Mr. Ye Jianhua [*]	√	√
Ms. Huang Yuyan	√	√
Mr. Yang Yide	√	√
Mr. Guo Dingwen	√	√
Independent non-executive Directors		
Mr. Zheng Jianzhuang	√	√
Ms. Lin Suyan	√	√
Ms. Hou Meiwen	√	√
Mr. Li Wai Chung	√	√
Mr. Wang Yongyue	√	√

[#] Mr. Yan Chuanhua tendered resignation as an executive Director on 19 March 2020 and the resignation will be effective from the conclusion of the AGM.

^{*} Mr. Ye Jianhua resigned as a non-executive Director of the Company on 10 March 2020.

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

BOARD COMMITTEES

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

Audit Committee

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

Corporate Governance Report

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

As the H Shares were listed on the Stock Exchange on 31 December 2019, the Audit Committee did not have any meeting and did not meet the Company's external auditor during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Audit Committee held one meeting with the external auditor of the Company to discuss the annual financial results and report for the year ended 31 December 2019. The Audit Committee has reviewed and discussed significant issues on the financial reporting, operational and compliance controls, effectiveness of the risk management and internal control systems and internal audit matters with the Board.

Remuneration Committee

The Remuneration Committee comprises five members, including three independent non-executive Directors, namely Mr. Wang Yongyue, Mr. Zheng Jianzhuang and Ms. Lin Suyan, and two executive Directors, namely Mr. Yan Chuanhua and Mr. Zhang Junzhou. Mr. Wang Yongyue is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the Corporate Governance Code. The primary functions of the Remuneration Committee include determining or making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management; establishing a formal and

transparent procedure for developing remuneration policy to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

As the H Shares were listed on the Stock Exchange on 31 December 2019, the Remuneration Committee did not have any meeting during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Remuneration Committee held one meeting and reviewed the remuneration policy and structure of the Company and assessed the performance and remuneration packages of the Directors and senior management.

Pursuant to paragraph B.1.5 of the Corporate Governance Code, the remuneration paid to the senior management by bands for the year ended 31 December 2019 is set out below:

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

Nomination Committee

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

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

Corporate Governance Report

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

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

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

Strategy Committee

The Strategy Committee comprises six members, including two executive Directors, namely Mr. Yan Chuanhua and Mr. Zhang Junzhou, three non-executive Directors, namely Ms. Fang Ya, Mr. Wang Haibo and Ms. Huang Yuyan, and one independent non-executive Director, namely Mr. Zheng Jianzhuang. Mr. Yan Chuanhua is the chairman of the Strategy Committee.

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

As the H Shares were listed on the Stock Exchange on 31 December 2019, the Strategy Committee did not have any meeting during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Strategy Committee held one meeting and reviewed the business development and investment plan for the year ending 31 December 2020.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code.

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

Corporate Governance Report

BOARD MEETINGS AND DIRECTORS' ATTENDANCE RECORDS

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

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

Name of Directors	Attendance/Number of Meeting(s)					
	Board meeting(s)	Strategy Committee meeting(s)	Audit Committee Meeting(s)	Remuneration Committee meeting(s)	Nomination Committee meeting(s)	General meeting(s)
Executive Directors						
Mr. Yan Chuanhua [#]	15/15	1/1	N/A	1/1	4/4	6/6
Mr. Zhang Junzhou	15/15	1/1	N/A	1/1	N/A	6/6
Non-executive Directors						
Mr. Wang Haibo	7/7	1/1	N/A	N/A	N/A	2/2
Mr. Wang Haiping	15/15	N/A	1/1	N/A	N/A	6/6
Ms. Fang Ya	15/15	1/1	N/A	N/A	N/A	6/6
Mr. Yu Yangbin	15/15	N/A	N/A	N/A	4/4	6/6
Mr. Ye Jianhua [*]	14/14	N/A	N/A	N/A	N/A	6/6
Ms. Huang Yuyan	15/15	1/1	N/A	N/A	N/A	6/6
Mr. Yang Yide	15/15	N/A	N/A	N/A	4/4	6/6
Mr. Guo Dingwen	15/15	N/A	N/A	N/A	N/A	6/6
Independent non-executive Directors						
Mr. Zheng Jianzhuang	15/15	1/1	N/A	1/1	4/4	6/6
Ms. Lin Suyan	15/15	N/A	N/A	1/1	4/4	6/6
Ms. Hou Meiwen	15/15	N/A	1/1	N/A	4/4	6/6
Mr. Li Wai Chung	7/7	N/A	1/1	N/A	N/A	2/2
Mr. Wang Yongyue	15/15	N/A	N/A	1/1	4/4	6/6

[#] Mr. Yan Chuanhua tendered resignation as an executive Director on 19 March 2020 and the resignation will be effective from the conclusion of the AGM.

^{*} Mr. Ye Jianhua resigned as a non-executive Director of the Company on 10 March 2020.

Corporate Governance Report

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. Our internal control system and procedures are designed to meet our specific business needs and to minimise our business-related risk exposure. We engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review of the adequacy and effectiveness of the risk management and internal control systems over our major business processes.

In May 2019, the Internal Control Consultant conducted an internal control review (the "**Internal Control Review**") on, among others, control environment, risk management, information and communication, monitoring of controls, operation level controls such as revenue cycle, procurement cycle, expenditure cycle, etc. and provided recommendations to enhance the internal control system of the Group.

We have adopted and implemented the recommendations provided by the Internal Control Consultant and the Internal Control Consultant has not identified any material findings which may have material impact on the effectiveness of our internal control system. At the same time, in the second half of 2019, the Company's internal audit department reviewed the effectiveness of the implementation of the rectification measures proposed by the Internal Control Consultant and considered that the Company had implemented the rectification measures effectively.

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

Corporate Governance Report

WHISTLEBLOWING POLICY

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

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

INSIDE INFORMATION

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

MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors. Specific enquiries have been made to all the Directors and Supervisors and the Directors and Supervisors have confirmed that they have complied with the Model Code from the Listing Date and up to the date of this annual report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

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

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

Corporate Governance Report

AUDITOR'S REMUNERATION

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

Category of services	Fee paid/payable RMB'000
Audit services	1,302
Non-audit services	–
Total	1,302

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

JOINT COMPANY SECRETARIES

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

During the year ended 31 December 2019, each of Ms. Chen and Ms. Siu has undertaken not less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

Corporate Governance Report

SHAREHOLDERS' RIGHTS

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

Procedures for Shareholders to Convene Extraordinary General Meeting

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

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

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

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

Corporate Governance Report

Procedures for Shareholders to Nominate Candidates of Directors

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

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

Putting Forward Enquiries to the Board

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

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

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

Email: ir@zjtzwater.com

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

Constitutional Documents

In preparation of the Listing, the Articles of Association was amended on 5 June 2019 and was further amended on 8 November 2019, and has been effective since the Listing Date. On 9 March 2020, the Board has resolved to amend the articles set out in the Articles of Association regarding the registered capital of the Company subsequent to the Listing, and the new Articles of Association was adopted on the same date. No amendments have been made to the Articles of Association since its last amendment up to the date of this annual report. The Articles of Association is available on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

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

(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Taizhou Water Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for expected credit loss of trade receivables</i></p> <p>As at 31 December 2019, the net carrying value of the Group's trade receivables amounted to RMB104,038,000 (after netting off an impairment provision of RMB51,238,000), representing approximately 3.6% of the Group's total assets.</p> <p>The impairment of trade receivables was assessed based on the expected credit loss model. The assessment of expected credit losses of trade receivables was performed at 31 December 2019 using simplified approach which involved significant management's judgement and estimation including their assessment of customers' current financial positions and forward-looking information. The assessment is highly judgmental.</p> <p>The disclosures about the impairment of trade receivables are included in notes 2.3, 3 and 18 to the financial statements.</p>	<p>We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing, on a sample basis, payments received subsequent to year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics by checking to Purchasing Managers' Index.</p>

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of non-financial long-lived assets</p> <p>As the carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2019, the Group performed impairment tests on its cash-generating units. These impairment tests involved significant estimation and judgements around assumptions used, including expected future selling prices and future cost of sales. No impairment of non-financial long-lived assets was provided as at 31 December 2019.</p> <p>The Group's disclosures about impairment of non-financial long-lived assets are included in notes 2.3 and 3 to the financial statements.</p>	<p>We evaluated management's identification of indicators of impairment and cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's historical data and development plan. We involved our internal valuation specialists to assist in evaluating the methodology used, and the underlying assumptions and parameters adopted by management to estimate recoverable amounts of the cash-generating units. We also performed sensitivity analysis on the discount rates applied and the assumptions for revenue levels adopted.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CONTINUING OPERATIONS			
REVENUE	5	472,148	504,263
Cost of sales		(284,616)	(306,986)
Gross profit		187,532	197,277
Other income and gains	5	12,949	27,370
Administrative expenses		(43,856)	(34,672)
Other expenses		(747)	(2,560)
Finance costs	7	(15,399)	(26,628)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	140,479	160,787
Income tax expense	10	(35,958)	(40,537)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		104,521	120,250
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	11	–	3,248
PROFIT FOR THE YEAR AND OTHER COMPREHENSIVE INCOME FOR THE YEAR		104,521	123,498
Attributable to:			
Owners of the parent		92,540	110,450
Non-controlling interests		11,981	13,048
		104,521	123,498
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)			
– For profit for the year		0.62	0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,772,391	1,037,070
Prepayments for property, plant and equipment		11,797	46,780
Prepayments for land use rights		52,612	62,664
Investment in an associate	15	125,000	59,600
Deferred tax assets	25	20,865	21,358
Right-of-use assets	16	384,484	264,045
Total non-current assets		2,367,149	1,491,517
CURRENT ASSETS			
Inventories	17	4,432	4,213
Trade receivables	18	104,038	109,190
Prepayments, other receivables and other assets	19	172,610	18,982
Pledged bank deposits	20	16,742	14,877
Cash and cash equivalents	20	264,357	314,398
Total current assets		562,179	461,660
CURRENT LIABILITIES			
Trade payables	21	76,809	68,471
Other payables and accruals	22	299,791	160,680
Interest-bearing bank and other borrowings	23	55,000	22,786
Deferred government grants	24	3,261	2,725
Lease liabilities	16	19,372	19,291
Tax payable		12,458	17,003
Total current liabilities		466,691	290,956
NET CURRENT ASSETS		95,488	170,704
TOTAL ASSETS LESS CURRENT LIABILITIES		2,462,637	1,662,221

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,462,637	1,662,221
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	1,479,000	982,000
Deferred government grants	24	80,176	33,758
Other liabilities		1,242	1,086
Total non-current liabilities		1,560,418	1,016,844
Net assets		902,219	645,377
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	200,000	150,000
Reserves	27	564,550	369,689
		764,550	519,689
Non-controlling interests		137,669	125,688
Total equity		902,219	645,377

Yan Chuanhua
Director

Zhang Junzhou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital reserve*	Statutory surplus reserve*	Retained profits*	Total			
	RMB'000 (note 26)	RMB'000 (note 27)	RMB'000 (note 27)	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2018	150,000	16,913	41,413	200,913	409,239	72,640	481,879	
Profit for the year and total comprehensive income for the year	–	–	–	110,450	110,450	13,048	123,498	
Capital contribution by non-controlling shareholders	–	–	–	–	–	40,000	40,000	
Transfer to statutory surplus reserve	–	–	4,605	(4,605)	–	–	–	
At 31 December 2018 and 1 January 2019	150,000	16,913	46,018	306,758	519,689	125,688	645,377	
Profit for the year and total comprehensive income for the year	–	–	–	92,540	92,540	11,981	104,521	
Issuance of shares for initial public offering	50,000	138,902	–	–	188,902	–	188,902	
Share issue expenses	–	(36,581)	–	–	(36,581)	–	(36,581)	
Transfer to statutory surplus reserve	–	–	3,774	(3,774)	–	–	–	
At 31 December 2019	200,000	119,234	49,792	395,524	764,550	137,669	902,219	

* These reserve accounts comprise the consolidated reserves of RMB564,550,000 (2018: RMB369,689,000) in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		140,479	160,787
From discontinued operations	11	–	4,086
Adjustments for:			
Interest income from loans to related parties	5	–	(6,384)
Gain on disposal of items of property, plant and equipment	5	(21)	(902)
Gain on disposal of subsidiaries		–	(4,955)
Finance costs	7	15,399	26,628
Depreciation of property, plant and equipment		53,110	67,062
Depreciation of right-of-use assets	16	6,755	4,648
Amortisation of government grants	24	(3,046)	(2,705)
Impairment of trade receivables	18	1,252	120
Impairment of other receivables	19	2	266
		213,930	248,651
Increase in inventories		(219)	(46)
Decrease in trade receivables		3,900	49,217
Increase in prepayments, other receivables and other assets		(5,456)	(3,515)
Increase/(decrease) in trade payables		8,338	(12,567)
Decrease in other payables and accruals		(40,686)	(19,466)
Increase in deferred government grants		50,000	10,324
Increase/(decrease) in other liabilities		156	(24)
Cash generated from operations		229,963	272,574
Income tax paid		(41,973)	(78,448)
Net cash flows from operating activities		187,990	194,126

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(504,358)	(329,691)
Increase in prepayments for land use rights		–	(2,136)
Prepayments for right-of-use assets		(161,421)	(42,022)
Purchase of an additional interest in an associate		(65,400)	(9,600)
Proceeds from disposal of items of property, plant and equipment		10,771	1,455
Proceeds from disposal of subsidiaries		–	7,857
Increase in pledged bank deposits		(1,865)	(4,048)
Interests received from loans to related parties		–	7,131
Repayment of loans to related parties		–	320,000
Net cash flows used in investing activities		(722,273)	(51,054)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling interests		–	40,000
Issue of shares		18,851	–
Share issue expenses		(25,075)	–
New borrowings		646,000	62,000
Repayment of bank and other borrowings		(103,786)	(373,541)
Interest paid	29	(51,748)	(42,918)
Net cash flows from/(used in) financing activities		484,242	(314,459)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(50,041)	(171,387)
Cash and cash equivalents at beginning of year		314,398	485,785
CASH AND CASH EQUIVALENTS AT END OF YEAR		264,357	314,398
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows		20	264,357
			314,398

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Taizhou City Water Co., Ltd. ("Taizhou City Water") (台州市城市水務有限公司)*	PRC/ Mainland China 30 September 2003	RMB220,000,000	82	–	Centralised water production and supply
Wenling Zeguo Water Supply Co., Ltd. ("Wenling Zeguo Water Supply") (溫嶺市澤國自來水有限公司)*	PRC/ Mainland China 9 November 2006	RMB30,000,000	100	–	Centralised water supply; pipeline installation service
Taizhou Environmental Development Co., Ltd. ("Taizhou Environmental Development") (台州市環境發展有限公司)*	PRC/ Mainland China 5 September 2018	RMB10,000,000	100	–	Dormant
Taizhou South Bay Water Supply Co., Ltd. ("Taizhou South Bay Water Supply") (台州市南部灣區水務有限公司)*	PRC/ Mainland China 13 March 2018	RMB100,000,000	60	–	Centralised water production and supply
Taizhou Binhai Water Co., Ltd. ("Binhai Water") (台州市濱海水務有限公司)*	PRC/ Mainland China 7 June 2016	RMB100,000,000	51	49	Centralised water production and supply

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

Notes to Financial Statements

Year ended 31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the years. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ²

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

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

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

or

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Buildings	10–35 years
Pipelines	15–20 years
Machinery and equipment	5–20 years
Computer and office equipment	3–10 years
Motor vehicles	4–6 years
Leasehold improvements	3 years

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

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Leases (Continued)***Group as a lessee (Continued)*

(a) Right-of-use assets

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

Leasehold land	20 to 30 years
Plant and machinery	3 to 5 years
Motor vehicles	2 to 5 years

(b) Lease liabilities

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt investments)

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of water

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

(b) Installation services

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

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

Other income

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

Contract assets

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

Contract liabilities

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Pension scheme

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

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2.70% and 3.03% has been applied to the expenditure on the individual assets.

Dividends

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

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

Notes to Financial Statements

Year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial long-lived assets

The Group assesses whether there are any indicators of impairment for all non-financial long-lived assets at the end of each reporting period. Non-financial long-lived assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2019, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial long-lived assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, the Group estimates the expected future cash flows from the non-financial long-lived assets or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

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

Provision for expected credit losses of trade receivables

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

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

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

Notes to Financial Statements

Year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)**Estimation uncertainty (Continued)***Deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2019 was RMB16,558,000 (2018: RMB13,166,000). Further details are contained in note 25 to these financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographic information*(a) Revenue from external customers*

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

(b) Non-current assets

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

Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer 1	139,917	136,825
Customer 2	104,683	123,417
Customer 3	94,358	97,118
Customer 4	N/A*	56,125

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

Notes to Financial Statements

Year ended 31 December 2019

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	472,148	504,263

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	2019 RMB'000	2018 RMB'000
Type of goods or services		
Sale of water	461,215	497,333
Installation services	10,933	6,930
Total revenue from contracts with customers	472,148	504,263
Timing of revenue recognition		
Goods transferred at a point in time	461,215	497,333
Services transferred over time	10,933	6,930
Total revenue from contracts with customers	472,148	504,263

(b) *Contract liabilities*

The Group recognised the following revenue-related contract liabilities:

	2019 RMB'000	2018 RMB'000
Current (note 22(b))	1,683	4,110

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

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Installation services	4,110	16,982

Notes to Financial Statements

Year ended 31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(c) *Performance obligations*

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

Sale of water

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

Installation services

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

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

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	7,790	479

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

	2019 RMB'000	2018 RMB'000
Other income		
Bank interest income	1,227	1,574
Interest income from loans to related parties	–	6,384
Government grants	1,087	5,584
Value added tax refund	10,084	11,550
Others	530	1,452
	12,928	26,544
Gains		
Gain on disposal of items of property, plant and equipment	21	826
	12,949	27,370

Notes to Financial Statements

Year ended 31 December 2019

6. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold*		277,230	302,530
Cost of services provided		7,386	4,456
Depreciation of property, plant and equipment		53,110	66,884
Depreciation of right-of-use assets	16(a)	6,755	4,630
Impairment of trade receivables, net	18	1,252	45
Impairment of financial assets included in prepayments, other receivables and other assets	19	2	–
Government grants**		(1,087)	(5,584)
Auditor's remuneration		1,745	850
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration (note 8)):			
Wages and salaries		42,021	40,410
Pension scheme contributions		5,408	7,374
Staff welfare expenses		6,540	5,382
		53,969	53,166
Gain on disposal of items of property, plant and equipment		(21)	(826)
Listing expenses		2,322	–

* The cost of inventories sold includes RMB88,471,000 (2018: RMB102,319,000) relating to staff costs, depreciation of property, plant and equipment, and depreciation of right-of-use assets for the year, which are also included in the respective total amounts disclosed above for each type of expenses.

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

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	36,488	24,307
Interest on other borrowings	16,096	18,179
Less: Interest capitalised	(37,185)	(15,858)
	15,399	26,628

Notes to Financial Statements

Year ended 31 December 2019

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

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

	2019 RMB'000	2018 RMB'000
Fees	189	205
Other emoluments:		
Salaries, allowances and benefits in kind	2,166	1,748
Pension scheme contributions	112	99
	2,278	1,847
	2,467	2,052

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Zheng Jianzhuang	43	41
Xin Jinguo (i)	–	14
Cai Ning (i)	–	14
Guan Xiaoyong (i)	–	14
Hou Meiwen	43	41
Lin Suyan	43	27
Guo Bin (ii)	17	27
Wang Yongyue	43	27
Li Wai Chung (iii)	–	–
	189	205

Notes:

- (i) Xin Jinguo, Cai Ning and Guan Xiaoyong retired in May 2018.
- (ii) Guo Bin retired in June 2019.
- (iii) Li Wai Chung was appointed as an independent non-executive director in June 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Notes to Financial Statements

Year ended 31 December 2019

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019				
Executive directors:				
Yan Chuanhua	–	639	27	666
Zhang Junzhou*	–	639	27	666
	–	1,278	54	1,332
Non-executive directors:				
Yang Yide	20	–	–	20
Xu Hailong (iii)	–	69	4	73
Guo Dingwen	19	–	–	19
Wang Haiping	–	–	–	–
Zheng Ranhan (vi)	–	–	–	–
Fang Ya	–	–	–	–
Chen Zhongfa (vi)	–	–	–	–
Ye Jianhua	–	–	–	–
Huang Yuyan	–	–	–	–
Wang Haibo (iv)	–	–	–	–
Yu Yangbin (iv)	–	–	–	–
	39	69	4	112
Supervisors:				
Chen Guojun	–	391	27	418
Zheng Jing	–	389	27	416
Lu Huaping	–	–	–	–
Yu Changcheng	–	–	–	–
Lin Ying	–	–	–	–
	–	780	54	834
	39	2,127	112	2,278

Notes to Financial Statements

Year ended 31 December 2019

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

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

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018			
Executive directors:			
Yan Chuanhua	420	23	443
Zhang Junzhou*	418	23	441
	838	46	884
Non-executive directors:			
Yang Yide	19	–	19
Zhu Ping (v)	14	–	14
Guo Dingwen	3	–	3
Wang Haiping	–	–	–
Zheng Ranhan (vi)	–	–	–
Fang Ya	–	–	–
Chen Zhongfa (vi)	–	–	–
Ye Jianhua	–	–	–
Huang Yuyan	–	–	–
	36	–	36
Supervisors:			
Chen Guojun	381	23	404
Guan Liping (i)	115	7	122
Zheng Jing	378	23	401
Lu Huaping	–	–	–
Yu Changcheng	–	–	–
Gao Huiqian (ii)	–	–	–
Lin Ying	–	–	–
	874	53	927
	1,748	99	1,847

Notes to Financial Statements

Year ended 31 December 2019

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

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

Notes:

- (i) Guan Liping retired in March 2018.
- (ii) Gao Huiqian was appointed as a supervisor in March 2017 and retired in October 2018.
- (iii) Xu Hailong was appointed as a non-executive director in February 2019 and retired in June 2019.
- (iv) Yu Yangbin and Wang Haibo were appointed as non-executive directors in January 2019 and in June 2019, respectively.
- (v) Zhu Ping retired in October 2018.
- (vi) Zheng Ranhan and Chen Zhongfa retired in February 2019 and January 2019, respectively.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	1,560	1,103
Pension scheme contributions	80	68
	1,640	1,171

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

	Number of employees	
	2019	2018
Nil to HK\$1,000,000	3	3

Notes to Financial Statements

Year ended 31 December 2019

10. INCOME TAX

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

During the year, except for Taizhou Environmental Development which was entitled to a preferential income tax rate of 10% (2018: 10%) for small and micro enterprises, the provision for current income tax in Mainland China was based on the statutory rate of 25% (2018: 25%) of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

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

	2019 RMB'000	2018 RMB'000
Current tax – Mainland China		
Charge for the year	35,465	42,869
Deferred tax (note 25)	493	(1,494)
Total tax charge for the year from continuing operations	35,958	40,537
Total tax charge for the year from discontinued operations	–	838
	35,958	41,375

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

	2019		2018	
	RMB'000	%	RMB'000	%
Profit before tax from continuing operations	140,479		160,787	
Profit before tax from discontinued operations	–		4,086	
	140,479		164,873	
Tax at the statutory tax rate of 25% in Mainland China	35,120	25.0	41,218	25.0
Income not subject to tax	–	–	(419)	(0.3)
Effect of non-deductible expenses	82	0.1	1,124	0.7
Tax losses not recognised	1,275	0.9	659	0.4
Tax losses utilised from previous years	(427)	(0.3)	(1,218)	(0.7)
Lower tax rate for specific provinces or enacted by local authority	(92)	(0.1)	–	–
Temporary differences not recognised	–	–	11	–
Tax charge at the Group's effective rate	35,958	25.6	41,375	25.1
Tax charge from continuing operations at the effective rate	35,958	25.6	40,537	25.2
Tax charge from discontinued operations at the effective rate	–	–	838	20.5

Notes to Financial Statements

Year ended 31 December 2019

11. DISCONTINUED OPERATIONS

On 7 November 2018, the Company transferred its entire interest in Zhejiang Taizhou Landscape Engineering Co., Ltd. (“Zhejiang Taizhou Landscape”) and Taizhou Modern Construction and Engineering Co., Ltd. (“Taizhou Modern Construction”) to Taizhou Development Investment Co., Ltd. (“Taizhou Development”), which are principally engaged in the construction of public work and the landscape business (“Landscape and Construction Business”) for considerations of RMB7,020,000 and RMB12,670,000, respectively. The disposal of Zhejiang Taizhou Landscape and Taizhou Modern Construction was completed on 15 November 2018.

The results of the discontinued operations for the year ended 31 December 2018 are presented below:

	Landscape and Construction Business RMB'000
Revenue	13,872
Cost of sales	(12,369)
Gross profit	1,503
Other income and gains	5,116
Administrative expenses	(2,531)
Other expenses	(2)
Profit before tax from discontinued operations	4,086
Income tax expense (note 10)	(838)
Profit for the year from discontinued operations	3,248
Attributable to:	
Owners of the parent	3,248

The net cash flows incurred by the discontinued operations for the year ended 31 December 2018 are as follows:

	Landscape and Construction Business RMB'000
Operating activities	(4,224)
Investing activities	47
Net cash outflow	(4,177)

Notes to Financial Statements

Year ended 31 December 2019

11. DISCONTINUED OPERATIONS (Continued)

The calculations of basic and diluted earnings per share from the discontinued operations for the year ended 31 December 2018 are based on:

	2018
Earnings per share:	
– Basic and diluted, from discontinued operations (RMB)	0.02
Profit attributable to ordinary equity holders of the parent from discontinued operations (RMB)	3,248,000
Weighted average number of ordinary shares in issue during the year	150,000,000

The Group's profit before tax from discontinued operations for the year ended 31 December 2018 is arrived at after charging:

	2018 RMB'000
Cost of services provided	12,369
Depreciation of property, plant and equipment	198
Depreciation of right-of-use assets	18
Impairment of trade receivables, net	75
Impairment of financial assets included in prepayments, other receivables and other assets	266
Auditor's remuneration	61
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration (note 8)):	
Wages and salaries	1,372
Pension scheme contributions	186
Staff welfare expenses	267
	1,825
Gain on disposal of items of property, plant and equipment	(76)
Gain on disposal of subsidiaries	(4,955)

Notes to Financial Statements

Year ended 31 December 2019

12. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final – RMB0.16 (2018: Nil) per ordinary share	32,000	–

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

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

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

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

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:		
From continuing operations	92,540	107,202
From discontinued operations (note 11)	–	3,248
	92,540	110,450

Number of shares

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	150,137,000	150,000,000

Notes to Financial Statements

Year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019								
At 1 January 2019:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	-	(858,114)
Net carrying amount	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
At 1 January 2019, net of accumulated depreciation								
	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
Additions	3,225	-	10,596	4,423	752	-	736,839	755,835
Capitalisation of depreciation of right-of-use assets (note 16)	-	-	-	-	-	-	44,360	44,360
Disposals	(2,748)	(39)	(7,942)	(18)	(3)	-	-	(10,750)
Depreciation provided during the year	(21,215)	(22,268)	(6,549)	(2,180)	(1,824)	(88)	-	(54,124)
Transfers	-	2,828	-	487	-	-	(3,315)	-
At 31 December 2019, net of accumulated depreciation	196,769	225,740	39,431	10,438	6,607	163	1,293,243	1,772,391
At 31 December 2019:								
Cost	416,537	635,923	262,027	59,508	11,185	266	1,293,243	2,678,689
Accumulated depreciation	(219,768)	(410,183)	(222,596)	(49,070)	(4,578)	(103)	-	(906,298)
Net carrying amount	196,769	225,740	39,431	10,438	6,607	163	1,293,243	1,772,391

Notes to Financial Statements

Year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018								
At 1 January 2018:								
Cost	413,784	632,719	264,034	53,157	11,973	138	177,903	1,553,708
Accumulated depreciation	(178,669)	(367,249)	(203,524)	(45,912)	(9,316)	(46)	-	(804,716)
Net carrying amount	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
At 1 January 2018, net of accumulated depreciation								
	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
Additions	783	-	2,566	3,311	6,935	264	330,768	344,627
Capitalisation of depreciation of right-of-use assets (note 16)	-	-	-	-	-	-	12,610	12,610
Disposals	(26)	(14)	(100)	(55)	(358)	-	-	(553)
Disposal of subsidiaries (note 28)	(522)	-	(2)	(41)	(447)	(37)	-	(1,049)
Depreciation provided during the year	(20,906)	(22,362)	(19,648)	(3,468)	(1,105)	(68)	-	(67,557)
Transfers	3,063	2,125	-	734	-	-	(5,922)	-
At 31 December 2018, net of accumulated depreciation	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
At 31 December 2018:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	-	(858,114)
Net carrying amount	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070

15. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	125,000	59,600

Notes to Financial Statements

Year ended 31 December 2019

15. INVESTMENT IN AN ASSOCIATE (Continued)

Particulars of the associate are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Taizhou Zhuxi Reservoir Development Co., Ltd. ("Zhuxi Reservoir")	PRC/Mainland China	RMB 800,000,000	15.625	Zhuxi reservoir project construction and operation, water resources development, utilisation and protection

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

The associate has not commenced its operation during the year.

16. LEASES

The Group as a lessee

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

(a) *Right-of-use assets*

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

	Lands RMB'000	Total RMB'000
As at 1 January 2018	221,750	221,750
Additions	59,553	59,553
Depreciation recognised in profit or loss during the year	(4,648)	(4,648)
Depreciation capitalised in property, plant and equipment during the year (note 14)	(12,610)	(12,610)
As at 31 December 2018 and 1 January 2019	264,045	264,045
Additions	171,554	171,554
Depreciation recognised in profit or loss during the year	(6,755)	(6,755)
Depreciation capitalised in property, plant and equipment during the year (note 14)	(44,360)	(44,360)
As at 31 December 2019	384,484	384,484

Notes to Financial Statements

Year ended 31 December 2019

16. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	19,291	1,760
Additions	171,554	59,553
Transfer from prepayments for land use rights	(10,052)	–
Payments during the year	(161,421)	(42,022)
Carrying amount at 31 December	19,372	19,291
Analysed into:		
Current portion	19,372	19,291

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

	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets	6,755	4,648

(d) The total cash outflow for leases is disclosed in note 29(b) to the financial statements.

17. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	4,432	4,213

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	61,036	63,019
Due from related parties (note 33(b))	94,240	96,157
	155,276	159,176
Impairment	(51,238)	(49,986)
	104,038	109,190

Notes to Financial Statements

Year ended 31 December 2019

18. TRADE RECEIVABLES (Continued)

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

As at 31 December 2019, certain of the Group's trade receivables with a carrying amount of RMB92,615,000 (2018: RMB93,648,000) were pledged to secure the Group's bank loans (note 23).

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

	2019 RMB'000	2018 RMB'000
Within 3 months	97,752	89,817
3 to 6 months	2,713	10,893
6 to 12 months	1,304	8,057
1 to 2 years	2,041	121
2 to 3 years	228	302
	104,038	109,190

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

	2019 RMB'000	2018 RMB'000
At beginning of year	49,986	50,444
Impairment losses recognised	1,252	120
Disposal of subsidiaries	-	(578)
At end of year	51,238	49,986

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

Notes to Financial Statements

Year ended 31 December 2019

18. TRADE RECEIVABLES (Continued)

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
As at 31 December 2019			
Less than 1 year	102,020	0.24%	245
Between 1 and 2 years	3,255	33.64%	1,095
Over 2 years	1,321	92.20%	1,218
Default receivables	48,680	100.00%	48,680
	155,276		51,238
As at 31 December 2018			
Less than 1 year	108,978	0.19%	207
Between 1 and 2 years	156	22.44%	35
Over 2 years	1,362	78.12%	1,064
Default receivables	48,680	100.00%	48,680
	159,176		49,986

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	1,904	4,395
Deposits and other receivables	163,455	13,728
Prepaid income tax	2,824	861
Contract assets	4,431	–
	172,614	18,984
Impairment allowance	(4)	(2)
	172,610	18,982

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

	2019 RMB'000	2018 RMB'000
At beginning of year	2	4
Impairment losses recognised	2	266
Disposal of subsidiaries	–	(268)
At end of year	4	2

Notes to Financial Statements

Year ended 31 December 2019

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	264,357	314,398
Pledged bank deposits	16,742	14,877
	281,099	329,275
Less: Pledged deposits for land reclamation fee	(16,742)	(14,877)
Cash and cash equivalents	264,357	314,398
Denominated in:		
RMB	245,568	314,398
Hong Kong dollars ("HK\$")	18,789	–
Cash and cash equivalents	264,357	314,398

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	76,809	68,471

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

	2019 RMB'000	2018 RMB'000
Within 3 months	40,127	42,764
3 to 6 months	20,045	21,607
6 to 12 months	13,143	597
Over 12 months	3,494	3,503
	76,809	68,471

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

Notes to Financial Statements

Year ended 31 December 2019

22. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Other payables	(a)	265,286	122,356
Due to related parties	33(b)	1,414	–
Accrued salaries		25,736	26,564
Interest payable		1,935	1,099
Contract liabilities	(b)	1,683	4,110
Other taxes payables		3,737	6,551
		299,791	160,680

Notes:

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

	2019 RMB'000	2018 RMB'000
<i>Short-term advances received from customers</i>		
Sale of water	284	750
Installation services	1,399	3,360
Total contract liabilities	1,683	4,110

Contract liabilities include short-term advances received to deliver water and installation services. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to services rendered at the end of the year.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2019 RMB'000	2018 RMB'000
Current				
Current portion of other borrowings				
Other borrowings – secured	2.80	2020	55,000	–
Other borrowings – secured	3.09	2019	–	22,786
			55,000	22,786
Non-current				
Bank loans				
Bank loans – secured	5.15	2023–2028	163,000	253,000
Bank loans – secured	4.90	2025–2048	806,000	164,000
Other borrowings				
Other borrowings – secured	2.80	2041	510,000	565,000
			1,479,000	982,000
			1,534,000	1,004,786

Notes to Financial Statements

Year ended 31 December 2019

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	–	–
In the second year	–	–
In the third to fifth years, inclusive	–	36,000
Beyond five years	969,000	381,000
	969,000	417,000
Other borrowings repayable:		
Within one year	55,000	22,786
In the second year	–	–
In the third to fifth years, inclusive	–	–
Beyond five years	510,000	565,000
	565,000	587,786
	1,534,000	1,004,786

Notes:

- (a) The Group's bank and other borrowings are secured by:
- (i) the pledge of the Group's trade receivables with a carrying amount of RMB92,615,000 (2018: RMB93,648,000) (note 18) and the right of charge on the future revenue generated by Taizhou water supply system (Phase I and Phase II);
 - (ii) the pledge of Binhai Water's right of charge on the future revenue generated by Taizhou water supply system (Phase III); and
 - (iii) the pledge of Taizhou South Bay Water Supply's right of charge on the future revenue.
- (b) Taizhou City Water has guaranteed certain of the Group's bank loans of up to RMB3,147,500,000 (2018: RMB3,007,000,000).
- (c) A shareholder of the Company, Taizhou Urban Construction Investment Development Group Co., Ltd. ("Taizhou Urban Construction") has guaranteed certain of the Group's bank loans of up to RMB565,000,000 (2018: RMB565,000,000).
- (d) The Company has guaranteed certain of the Group's bank loans of up to RMB5,145,500,000 (2018: RMB4,899,000,000).

Notes to Financial Statements

Year ended 31 December 2019

24. DEFERRED GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
At 1 January	36,483	28,864
Grants received during the year	50,000	10,324
Amount released	(3,046)	(2,705)
At 31 December	83,437	36,483
Current portion	(3,261)	(2,725)
Non-current portion	80,176	33,758

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

25. DEFERRED TAX

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

Deferred tax assets

	Lease liabilities RMB'000	Impairment of trade and other receivables RMB'000	Accrued salaries RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2018	–	12,485	1,867	5,512	19,864
Deferred tax credited/(charged) to profit or loss during the year (note 10)	–	12	(462)	1,944	1,494
Gross deferred tax assets at 31 December 2018 and 1 January 2019	–	12,497	1,405	7,456	21,358
Deferred tax credited/(charged) to profit or loss during the year (note 10)	4,843	314	(45)	(762)	4,350
Gross deferred tax assets at 31 December 2019	4,843	12,811	1,360	6,694	25,708

Notes to Financial Statements

Year ended 31 December 2019

25. DEFERRED TAX (Continued)

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

Deferred tax liabilities

	Right-of-use assets RMB'000
At 1 January 2018 and 31 December 2018	–
Deferred tax charged to profit or loss during the year (note 10)	(4,843)
Gross deferred tax liabilities at 31 December 2019	(4,843)

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

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	20,865	21,358

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

	2019 RMB'000	2018 RMB'000
Tax losses	16,558	13,166

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

Notes to Financial Statements

Year ended 31 December 2019

26. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
Domestic shares of 150,000,000 (2018: 150,000,000) of RMB1.00 each	150,000	150,000
H shares of 50,000,000 (2018: Nil) of RMB1.00 each	50,000	–
	200,000	150,000

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

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2018	149,130,000	149,130
Transfer from retained profits (note (a))	68,600,000	68,600
Derecognition of subsidiaries (note (b))	(67,730,000)	(67,730)
At 31 December 2018 and 1 January 2019	150,000,000	150,000
Initial public offering (note (c))	50,000,000	50,000
At 31 December 2019	200,000,000	200,000

Notes:

- (a) Pursuant to the resolution of shareholders' meeting on 12 March 2017, the shareholders agreed to transfer the retained profits of RMB68,600,000 to the share capital.
- (b) As a result of the derecognition of the property development and leasing businesses by transferring five non-wholly owned PRC subsidiaries to a new company formed by the Company's shareholders which was completed on 11 October 2017, the share capital of the Company was reduced by RMB67,730,000.
- (c) On 31 December 2019, 50,000,000 ordinary shares of par value RMB1.00 each were issued at a price of HK\$4.22 per share in connection with the Company's initial public offering. The proceeds of HK\$211,000,000 (equivalent to approximately RMB188,902,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HK\$155,151,000 (equivalent to approximately RMB138,902,000) before issuing expenses were credited to the capital reserve account. As at 31 December 2019, out of the total proceeds above, the Company received an amount of HK\$21,100,000 (equivalent to approximately RMB18,851,000) in connection with the Hong Kong public offering of 5,000,000 H shares at a price of HK\$4.22 per share and the remaining proceeds of HK\$189,900,000 (equivalent to RMB170,011,000) is received in January 2020.

Notes to Financial Statements

Year ended 31 December 2019

27. RESERVES

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

Capital reserve

The difference between the proceeds from issue of shares and nominal values of shares issued was credited to the Company's share premium accounts.

On 31 December 2019, RMB138,902,000 capital reserve arose from the initial public offering. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

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

28. DISPOSAL OF SUBSIDIARIES

On 7 November 2018, the Company entered into an equity transfer agreement with Taizhou Development, pursuant to which the Company agreed to transfer 100% equity interests in Zhejiang Taizhou Landscape and Taizhou Modern Construction to Taizhou Development for considerations of RMB12,670,000 and RMB7,020,000, respectively. Upon the completion of the transfer on 15 November 2018, the Group no longer has the control over Zhejiang Taizhou Landscape and Taizhou Modern Construction, which were deconsolidated since then.

	Zhejiang Taizhou Landscape RMB'000	Taizhou Modern Construction RMB'000	Total RMB'000
Net assets disposed of:			
Property, plant and equipment	392	657	1,049
Trade receivables	5,696	755	6,451
Prepayments, other receivables and other assets	861	1,126	1,987
Cash and bank balances	4,732	7,101	11,833
Trade payables	(757)	(3,649)	(4,406)
Other payables and accruals	(67)	(2,112)	(2,179)
	10,857	3,878	14,735
Gain on disposal of subsidiaries	1,813	3,142	4,955
Satisfied by:			
Cash	12,670	7,020	19,690

Notes to Financial Statements

Year ended 31 December 2019

28. DISPOSAL OF SUBSIDIARIES (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 RMB'000
Cash consideration	19,690
Cash and bank balances disposed of	(11,833)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	7,857

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Interest payable RMB'000
At 1 January 2018	1,316,327	1,531
Changes from financing cash flows	(311,541)	(42,918)
Interest on bank and other borrowings	–	42,486
At 31 December 2018 and 1 January 2019	1,004,786	1,099
Changes from financing cash flows	542,214	(51,748)
Interest on bank and other borrowings	–	52,584
Non-cash change (Note (i))	(13,000)	–
At 31 December 2019	1,534,000	1,935

Note:

- (i) During the year, the secured deposit of other borrowings with a carrying amount of RMB13,000,000 was not refunded and was regarded as the last rental instalment.

(b) Total cash outflow for leases

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

	2019 RMB'000	2018 RMB'000
Within investing activities	161,421	42,022

Notes to Financial Statements

Year ended 31 December 2019

30. PLEDGE OF ASSETS

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

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

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

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Taizhou City Water	18.0%	18.0%
Taizhou South Bay Water Supply	40.0%	40.0%
	2019 RMB'000	2018 RMB'000
Profit for the year allocated to non-controlling interests:		
Taizhou City Water	12,620	13,048
Taizhou South Bay Water Supply	(639)	-
Accumulated balances of non-controlling interests at the reporting date:		
Taizhou City Water	98,308	85,688
Taizhou South Bay Water Supply	39,361	40,000

Notes to Financial Statements

Year ended 31 December 2019

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

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

2019

	Taizhou City Water RMB'000	Taizhou South Bay Water Supply RMB'000
Revenue	326,840	–
Total expense	(256,726)	(1,597)
Profit for the year	70,114	(1,597)
Total comprehensive income for the year	70,114	(1,597)
Current assets	516,222	32,789
Non-current assets	361,093	361,957
Current liabilities	(78,345)	(11,343)
Non-current liabilities	(252,814)	(285,000)
Net cash flows from operating activities	73,970	47,841
Net cash flows used in investing activities	(17,937)	(264,511)
Net cash flows (used in)/from financing activities	(105,348)	232,160
Net (decrease)/increase in cash and cash equivalents	(49,315)	15,490

2018

	Taizhou City Water RMB'000	Taizhou South Bay Water Supply RMB'000
Revenue	359,138	–
Total expense	(286,650)	–
Profit for the year	72,488	–
Total comprehensive income for the year	72,488	–
Current assets	536,862	19,541
Non-current assets	371,777	111,810
Current liabilities	(89,245)	(31,351)
Non-current liabilities	(343,352)	–
Net cash flows from operating activities	111,238	65
Net cash flows from/(used in) investing activities	295,705	(88,002)
Net cash flows (used in)/from financing activities	(354,918)	100,000
Net increase in cash and cash equivalents	52,025	12,063

Notes to Financial Statements

Year ended 31 December 2019

32. COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for: Pipelines and buildings	1,289,516	1,519,414

33. RELATED PARTY TRANSACTIONS

The Group's related parties are as follows:

Name	Relationship with the Company
Zhejiang Taizhou Landscape	An entity controlled by the shareholders of the Company
Taizhou Modern Construction	An entity controlled by the shareholders of the Company
Wenling Mingcheng Real Estate Co., Ltd. ("Wenling Mingcheng")	An entity controlled by the shareholders of the Company
Zhenjiang Mingji Real Estate Co., Ltd. ("Zhenjiang Mingji")	An entity controlled by the shareholders of the Company
Water Supply Building Hotel Co., Ltd. ("Water Supply Hotel")	An entity controlled by the shareholders of the Company
Taizhou Luqiao Water Supply Co., Ltd. ("Taizhou Luqiao Water Supply")	An entity controlled by the shareholders of the Company
Zhejiang Huangyan Water Supply Co., Ltd. ("Zhejiang Huangyan Water Supply")	An entity controlled by the shareholders of the Company
Wenling Water Supply Co., Ltd. ("Wenling Water Supply")	A shareholder of Taizhou City Water
Yuhuan Water Supply Co., Ltd. ("Yuhuan Water Supply")	An entity controlled by the non-controlling shareholders of a subsidiary

Notes to Financial Statements

Year ended 31 December 2019

33. RELATED PARTY TRANSACTIONS (Continued)

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

	Notes	2019 RMB'000	2018 RMB'000
Interest income from:			
Zhenjiang Mingji	(i)	–	4,579
Wenling Mingcheng	(ii)	–	1,805
		–	6,384
Construction services from:			
Taizhou Modern Construction	(iii)	3,672	–
Zhejiang Taizhou Landscape	(iii)	1,126	354
		4,798	354
Sales of water to:			
Taizhou Luqiao Water Supply	(iii)	94,358	97,118
Zhejiang Huangyan Water Supply	(iii)	38,733	40,480
Yuhuan Water Supply	(iii)	39,989	45,448
Wenling Water Supply	(iii)	104,683	123,417
		277,763	306,463
Construction services to:			
Zhenjiang Mingji	(iii)	–	226
Wenling Mingcheng	(iii)	130	4,282
Taizhou Modern Construction	(iii)	45	–
Water Supply Hotel	(iii)	–	490
		175	4,998

Notes:

- (i) The entrusted loans to Zhenjiang Mingji were used for the construction of its real estate project. The entrusted loans were all unsecured and bore interest at 7.74% per annum. The entrusted loans were all repaid during the year ended 31 December 2018.
- (ii) The entrusted loans to Wenling Mingcheng were used for the construction of its real estate project. The entrusted loans were all unsecured and bore interest at rates ranging from 6.30% to 7.74% per annum. The entrusted loans were all repaid during the year ended 31 December 2018.
- (iii) The provision of construction services from the related parties and sales of water and provision of construction services to the related parties were made according to the published prices and conditions offered by the Group and the related parties to their major customers.

Notes to Financial Statements

Year ended 31 December 2019

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

	2019 RMB'000	2018 RMB'000
Due from related parties:		
Trade in nature		
Taizhou Luqiao Water Supply	19,418	20,867
Wenling Water Supply	54,484	49,458
Zhejiang Huangyan Water Supply	15,874	17,510
Yuhuan Water Supply	4,464	8,322
Balance included in trade receivables	94,240	96,157
Due to a related party:		
Trade in nature		
Taizhou Modern Construction	1,414	–

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

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

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	4,256	2,648
Pension scheme contributions	204	93
Total compensation paid to key management personnel	4,460	2,741

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

The related party transactions in respect of sale of water as set out in note 33(a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements

Year ended 31 December 2019

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2019

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	104,038	104,038
Financial assets included in prepayments, other receivables and other assets	167,882	167,882
Pledged bank deposits	16,742	16,742
Cash and cash equivalents	264,357	264,357
	553,019	553,019

2018

	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	109,190	109,190
Financial assets included in prepayments, other receivables and other assets	13,726	13,726
Pledged bank deposits	14,877	14,877
Cash and cash equivalents	314,398	314,398
	452,191	452,191

Financial liabilities at amortised cost

	2019 RMB'000	2018 RMB'000
Trade payables	76,809	68,471
Financial liabilities included in other payables and accruals	268,635	123,455
Interest-bearing bank and other borrowings	1,534,000	1,004,786
Lease liabilities	19,372	19,291
	1,898,816	1,216,003

Notes to Financial Statements

Year ended 31 December 2019

35. FAIR VALUE AND FAIR VALUE OF HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

Management has assessed that the fair values of the non-current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2018 and 2019.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
RMB	50	(3,431)
RMB	(50)	3,431
2018		
RMB	50	(624)
RMB	(50)	624

Notes to Financial Statements

Year ended 31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

31 December 2019

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	–	–	–	–	155,276	155,276
Financial assets included in prepayments, other receivables and other assets						
– Normal**	167,886	–	–	–	–	167,886
Pledged bank deposits						
– Not yet past due	16,742	–	–	–	–	16,742
Cash and cash equivalents						
– Not yet past due	264,357	–	–	–	–	264,357
	448,985	–	–	–	155,276	604,261

31 December 2018

	12-month ECLs		Lifetime ECLs		Simplified approach RMB'000	RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	–	–	–	–	159,176	159,176
Financial assets included in prepayments, other receivables and other assets						
– Normal**	13,728	–	–	–	–	13,728
Pledged bank deposits						
– Not yet past due	14,877	–	–	–	–	14,877
Cash and cash equivalents						
– Not yet past due	314,398	–	–	–	–	314,398
	343,003	–	–	–	159,176	502,179

Notes to Financial Statements

Year ended 31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

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

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

Liquidity risk

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

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

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

2019						
	On demand	Less than	3 to	1 to	Over	Total
	RMB'000	3 months	12 months	5 years	5 years	RMB'000
		RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	-	70,930	47,751	248,642	2,517,979	2,885,302
Trade payables	36,682	40,127	-	-	-	76,809
Financial liabilities included in other payables and accruals	260,333	318	7,984	-	-	268,635
Lease liabilities	19,372	-	-	-	-	19,372
	316,387	111,375	55,735	248,642	2,517,979	3,250,118

2018						
	On demand	Less than	3 to	1 to	Over	Total
	RMB'000	3 months	12 months	5 years	5 years	RMB'000
		RMB'000	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other borrowings	-	32,007	27,658	183,390	1,376,265	1,619,320
Trade payables	25,707	42,764	-	-	-	68,471
Financial liabilities included in other payables and accruals	116,911	6,344	200	-	-	123,455
Lease liabilities	19,291	-	-	-	-	19,291
	161,909	81,115	27,858	183,390	1,376,265	1,830,537

Notes to Financial Statements

Year ended 31 December 2019

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

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

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

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2019		
If the RMB weakens against the HK\$	5	(9,360)
If the RMB strengthens against the HK\$	(5)	9,360
2018		
If the RMB weakens against the HK\$	5	–
If the RMB strengthens against the HK\$	(5)	–

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2019.

Notes to Financial Statements

Year ended 31 December 2019

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Capital management (Continued)**

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

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings	1,534,000	1,004,786
Other liabilities	1,242	1,086
Trade payables	76,809	68,471
Other payables and accruals	299,791	160,680
Lease liabilities	19,372	19,291
Less: Cash and cash equivalents	(264,357)	(314,398)
Pledged bank deposits	(16,742)	(14,877)
Net debt	1,650,115	925,039
Equity attributable to owners of the parent	764,550	519,689
Total capital and net debt	2,414,665	1,444,728
Gearing ratio	68%	64%

37. EVENT AFTER THE REPORTING PERIOD

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

Notes to Financial Statements

Year ended 31 December 2019

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	230,285	243,905
Prepayments for property, plant and equipment	267	216
Investments in subsidiaries	334,240	334,240
Investment in an associate	125,000	59,600
Deferred tax assets	5,829	5,560
Right-of-use assets	7,480	7,849
Total non-current assets	703,101	651,370
CURRENT ASSETS		
Inventories	243	312
Trade receivables	47,469	51,321
Prepayments, other receivables and other assets	724,978	578,774
Tax recoverable	1,963	–
Cash and cash equivalents	65,037	42,497
Total current assets	839,690	672,904
CURRENT LIABILITIES		
Trade payables	76,267	67,804
Other payables and accruals	357,487	310,803
Interest-bearing bank and other borrowings	55,000	22,786
Deferred government grants	2,349	1,813
Tax payable	–	1,882
Total current liabilities	491,103	405,088
NET CURRENT ASSETS	348,587	267,816
TOTAL ASSETS LESS CURRENT LIABILITIES	1,051,688	919,186
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	510,000	565,000
Deferred government grants	16,756	19,426
Other liabilities	1,095	984
Total non-current liabilities	527,851	585,410
Net assets	523,837	333,776
EQUITY		
Share capital	200,000	150,000
Other reserves (note)	323,837	183,776
Total equity	523,837	333,776

Notes to Financial Statements

Year ended 31 December 2019

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

Note:

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

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2018	26,502	52,504	58,721	137,727
Profit for the year and total comprehensive income for the year	–	–	46,049	46,049
Transfer to statutory surplus reserve	–	4,605	(4,605)	–
At 31 December 2018 and 1 January 2019	26,502	57,109	100,165	183,776
Profit for the year and total comprehensive income for the year	–	–	37,740	37,740
Issuance of shares for initial public offering	138,902	–	–	138,902
Share issue expenses	(36,581)	–	–	(36,581)
Transfer to statutory surplus reserve	–	3,774	(3,774)	–
At 31 December 2019	128,823	60,883	134,131	323,837

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

FOUR-YEAR FINANCIAL SUMMARY

FOUR-YEAR FINANCIAL SUMMARY

Results

	Year ended 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
CONTINUED OPERATIONS				
Revenue	472,148	504,263	462,901	410,053
Profit before tax from Continued Operations	140,479	160,787	138,359	87,300
Income tax expense	35,958	40,537	36,690	25,270
Profit for the year from Continued Operations	104,521	120,250	101,669	62,030
Profit for the year from Discontinued Operations				
Operations	–	3,228	123,747	42,457
Profit for the year				
Attributable to:	104,521	123,498	225,416	104,487
Owners of the Company	92,540	110,450	179,997	82,461
Non-controlling interests	11,981	13,048	45,419	22,026

ASSETS AND LIABILITIES

	Year ended 31 December			
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	2,929,328	1,953,177	2,119,444	3,000,269
Total liabilities	2,027,109	1,307,800	1,637,565	2,547,286
Non-controlling interests	137,669	125,688	72,640	105,524
Equity attributable to owners of the Company	764,550	519,689	409,239	347,459

Notes: The summary of the consolidated results and financial position of the Group for the years ended 31 December 2016, 2017 and 2018 are extracted from the Prospectus.

No financial information of the Group for the year ended 31 December 2015 has been published.