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

瀘州市興瀘水務(集團)股份有限公司

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

(Stock code: 2281)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS FOR 2023

- Revenue amounted to approximately RMB1,286.4 million, representing a decrease of approximately 4.9% compared to the same period of 2022.
- Net profit amounted to approximately RMB223.9 million, representing an increase of approximately 0.3% compared to the same period of 2022.
- Net profit attributable to the owners of the parent company amounted to approximately RMB209.9 million, which represents an increase of approximately 3.3% compared to the same period of 2022.
- Basic earnings per share amounted to approximately RMB0.24, which was as flat as the same period of 2022.

PROFIT DISTRIBUTION PLAN OF 2023

- The Board proposed to distribute a final dividend of RMB0.05 per share (tax inclusive) for the year ended 31 December 2023 to all Shareholders on the basis of the number of shares of 859.71 million shares in issue as at 31 December 2023, amounting to a total final dividend of approximately RMB42.99 million. Subject to the approval of the Shareholders at the AGM, the Company expects to complete the distribution of final dividends on or before 31 July 2024. If there is any change in the above expected timing and distribution, the Company will make necessary announcement(s) as and when appropriate.

The board (the “**Board**”) of directors (the “**Directors**”) of Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司) (the “**Company**” or “**we**”) is pleased to announce the combined income and financial position of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023 (the “**Reporting Period**”) together with comparative figures for the year ended 31 December 2022 as follows:

I. FINANCIAL INFORMATION OF THE GROUP

1. CONSOLIDATED INCOME STATEMENT

Items	Currency: RMB'000	
	2023	2022
1. Total operating revenue	1,286,434	1,353,419
Including: Operating revenue	1,286,434	1,353,419
2. Total operating cost	1,075,970	1,135,261
Including: Operating cost	842,101	859,403
Taxes and surcharges	34,037	31,083
Cost of sales	26,084	24,306
Management expenses	101,925	94,430
Research and development expenses	51	821
Finance costs	71,772	125,217
Add: Other revenue	82,008	63,404
Investment income (represented by a sign of “-” for loss)	-3,044	591
Credit impairment loss (represented by a sign of “-” for loss)	-24,667	-28,134
Asset impairment loss (represented by a sign of “-” for loss)	-	-
Income from disposal of assets (represented by a sign of “-” for loss)	3,817	-
3. Operating profit (represented by a sign of “-” for loss)	268,577	254,020
Add: Non-operating revenue	3,666	3,775
Less: Non-operating expense	9,723	1,039
4. Total profit (represented by a sign of “-” for total loss)	262,521	256,756
Less: Income tax expense	38,608	33,516

Items	<i>Currency: RMB'000</i>	
	2023	2022
5. Net profit (represented by a sign of “-” for net loss)	223,913	223,241
(1) Classified by continuing operation	223,913	223,241
1. Net profit for continuing operation (represented by a sign of “-” for net loss)	223,913	223,241
(2) Classified by attribution of ownership	223,913	223,241
1. Net profit attributable to owners of the parent company (represented by a sign of “-” for net loss)	209,901	203,225
2. Minority profit and loss (represented by a sign of “-” for net loss)	14,012	20,016
6. Other comprehensive income, net after tax	-	-
Other comprehensive income attributable to the owners of the parent company, net after tax	-	-
(1) Other comprehensive income that cannot be reclassified into profit or loss	-	-
1. Others	-	-
7. Total comprehensive income	223,913	223,241
Total comprehensive income attributable to the shareholders of the parent company	209,901	203,225
Total comprehensive income attributable to minority shareholders	14,012	20,016
8. Earnings per share:		
(1) Basic earnings per share (RMB/share)	0.24	0.24
(2) Diluted earnings per share (RMB/share)	0.24	0.24

2. CONSOLIDATED BALANCE SHEET

Items	<i>Currency: RMB'000</i>	
	31 December 2023	31 December 2022
Current assets:		
Monetary funds	390,505	609,756
Bills receivable	600	1,750
Accounts receivable	563,915	526,385
Prepayments	40,106	27,759
Other receivables	126,201	135,172
Inventories	74,100	89,476
Contract assets	–	–
Other current assets	109,098	98,879
	<u>1,304,524</u>	<u>1,489,176</u>
Total current assets	1,304,524	1,489,176
Non-current assets:		
Long-term receivables	807	5,919
Long-term debt investment	–	55,867
Investments in other equity instruments	56	21
Properties held for investment	2,813	2,978
Fixed assets	3,334,920	3,381,791
Construction in progress	573,722	354,631
Right-of-use assets	61	191
Intangible assets	1,537,620	1,396,699
Goodwill	28,139	28,139
Long-term deferred expenses	184,424	210,243
Deferred income tax assets	16,711	15,022
Other non-current assets	70,990	199,891
	<u>5,750,262</u>	<u>5,651,392</u>
Total non-current assets	5,750,262	5,651,392
Total assets	<u>7,054,786</u>	<u>7,140,568</u>

Items	Currency: RMB'000	
	31 December 2023	31 December 2022
Current liabilities:		
Short-term borrowings	60,057	160,126
Accounts payable	417,137	376,117
Contract liabilities	177,211	224,418
Staff wages payable	49,150	44,148
Tax payable	20,765	20,345
Other payables	204,259	228,942
Of which: Interests payable	–	–
Non-current liabilities due within one year	569,614	216,717
Other current liabilities	2,469	2,010
Total current liabilities	1,500,662	1,272,823
Non-current liabilities:		
Long-term borrowings	1,465,304	1,920,928
Bonds payable	–	103,791
Long-term payables	850,844	744,350
Estimated liabilities	7,754	8,940
Deferred income	212,338	243,132
Deferred income tax liabilities	5,251	5,584
Total non-current liabilities	2,541,491	3,026,725
Total liabilities	4,042,153	4,299,548
Shareholders' equity:		
Share capital	859,710	859,710
Capital reserve	420,447	420,447
Other comprehensive income	-67	-67
Special reserve	12,276	16,773
Surplus reserve	73,486	64,032
Undistributed profits	1,432,696	1,275,235
Total shareholders' equity attributable to the parent company	2,798,549	2,636,130
Minority shareholders' equity	214,084	204,890
Total shareholders' equity	3,012,633	2,841,020
Total liabilities and shareholders' equity	7,054,786	7,140,568

NOTES

1. BASIS OF PREPARATION

Basis of preparation

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

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

Significant Accounting Policies and Accounting Estimates

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

Statement of compliance with the ASBE

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

Accounting period

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

Operating cycle

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

Reporting currency

The Group uses Renminbi as the local currency of accounts.

2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Type of goods		
– Water supply business	384,719	411,069
– Wastewater treatment business	607,255	523,978
– Engineering business	256,823	359,487
– Others	37,636	58,886
	<u>1,286,434</u>	<u>1,353,419</u>
Revenue	1,286,434	1,353,419

The above revenues are all derived from the People's Republic of China (the "PRC" or "China", for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan).

3. SEGMENT INFORMATION

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

Specifically, the Group's reportable segments under the ASBE No. 35 Segment Reporting are as follows:

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

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

In addition, the wastewater treatment segment includes subsidiaries of the Company providing wastewater treatment services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, "**Wastewater treatment segment**", because, in the opinion of Directors, they have similar economic characteristics and provide wastewater treatment services in the PRC under similar production processes to similar customer groups using similar distribution methods in the same regulatory environment.

Segment revenue and results

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Segment revenue		
Tap water supply		
– From external customers		
– Water supply business	384,719	411,069
– Engineering business	256,823	359,487
Wastewater treatment		
– From external customers		
– Operating services	607,255	523,978
– Others	37,636	58,886
Revenue	1,286,434	1,353,419
Segment profits		
– Tap water supply	69,568	46,624
– Wastewater treatment	156,532	169,568
– Others	-2,187	7,049
Net profit	223,913	223,241

* *Inter-segment sales for 2022 and 2023 were conducted at terms mutually agreed among the companies comprising the Group.*

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

Segment assets and liabilities

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Segment assets		
– Tap water supply	4,706,591	5,031,402
– Wastewater treatment	2,988,030	2,724,577
– Others	26,026	29,628
Elimination	<u>-682,572</u>	<u>-660,061</u>
Consolidated total assets	<u>7,038,075</u>	<u>7,125,546</u>
Segment liabilities		
– Tap water supply	2,526,800	2,885,957
– Wastewater treatment	1,504,846	1,400,263
– Others	8,002	12,535
Elimination	<u>-2,746</u>	<u>-4,791</u>
Consolidated total liabilities	<u>4,036,902</u>	<u>4,293,964</u>

4. FINANCE EXPENSES

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Interest expenses	77,484	131,343
Less: Interest income	6,113	7,111
Add: Foreign exchange losses	99	55
Add: Other expenses	<u>301</u>	<u>931</u>
	<u>71,772</u>	<u>125,217</u>

5. INCOME TAX EXPENSE

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax expense	40,630	42,058
Deferred income tax expense	-2,022	-8,542
	<u>38,608</u>	<u>33,516</u>

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

Name of taxpayer	2023	2022
Luzhou Xinglu Water (Group) Co., Ltd.* (“Water Headquarters”)	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“Lu County Branch”)	15%	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“Hejiang Water”)	15%	15%
Luzhou Nanjiao Water Co., Ltd. (“Nanjiao Water”)	15%	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“Beijiao Water”)	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“Sitong Engineering”)	15%	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater”)	15%	15%
Luzhou Xinghe Water Governance Co., Ltd. (“Xinghe Water Governance”)	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“Weiyuan Water”)	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“Weiyuan Installation”)	15%	15%
Luzhou Fanxing Environmental Development Co., Ltd. (“Fanxing Environmental”)	See ①②③	15%
Dechang Xinglu Water Co., Ltd. (“Dechang Water”)	15%	15%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“Qingbaijiang Water”)	See ①②③	15%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“Xingjia Environmental”)	See ③	2.5%
Leibo Xinglu Water Co., Ltd. (“Leibo Water”)	15%	15%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (“Crystal Trading”)	See ③	2.5% or 10%
Zhihui Water Science and Technology Co., Ltd. (“Zhihui Technology”)	See ③	2.5% or 10%
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“Sitong Design”)	See ③	2.5% or 10%
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“Xingxu Water”)	See ③	2.5% or 10%
Xuyong Yongxing Water Governance Co., Ltd. (“Yongxing Water Governance”)	See ③	2.5% or 10%
Luzhou Xinggang Environmental Technology Co., Ltd. (“Xinggang Environmental”)	See ③	
Leshan Jingyan Xinglu Wastewater Treatment Co., Ltd. (“Jingyan Wastewater”)	See ③	
Luzhou Xinglu Water Testing Co., Ltd. (“Water Testing”)	See ③	

Notes: Enterprise Income Tax Preference

- ① According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23) by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030. Projects including Xinglu Water Headquarters, Luxiang Branch, Hejiang Water, Nanjiao Water, Beijiao Water, Sitong Engineering, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, Weiyuan Installation, Fanxing Environmental, Dechang Water, and Qingbaijiang Water meet the requirements of the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, and being in the encouraged industries as set out in the Catalogue of Industries Encouraged to Develop in the Western Region, they are entitled to enjoy the preferential tax policy under the Implementation of Exploration and Development of Western Region.
- ② According to Article 27 of the EIT Law, the income of enterprises engaged in the investment and operation of public infrastructure projects supported by the state and the income derived from environmental protection projects or energy and water saving projects which meet relevant requirements are entitled to the tax preference of exemption and reduction. According to Article 88 of the Regulations for Implementation of Enterprise Income Tax, in respect of environmental protection projects or energy and water saving projects, including public wastewater treatment, public garbage treatment, integrated development and utilization of biogas, energy saving and emission reduction technology transformation and seawater desalination which meet relevant requirements, the income of enterprises engaging in the above environmental protection projects or energy and water saving projects which meet relevant requirements is entitled to be exempted from EIT for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation.

According to Article 34 of the EIT Law, for the amount of investment in purchase of special equipment for environmental protection, energy and water saving and work safety, tax credit may be implemented by the entity with a certain percentage. According to Article 100 of the Implementation Rules to the Enterprise Income Tax Law, where an enterprise purchases and actually uses special equipment for environmental protection, energy and water saving and work safety listed in the Catalogue of Enterprise Income Tax Incentives for Special Purpose Equipment for Environmental Protection, the Catalogue of Enterprise Income Tax Incentives for Special Equipment for Energy and Water Conservation, and the Catalogue of Enterprise Income Tax Incentives for Special Equipment for Work Safety, 10% of the investment amount in the special purpose equipment may be offset against its tax payable for the current year; where the tax payable is insufficient for the credit, the excess may be carried forward for credit in the following five taxable years.

According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23) by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030.

If an enterprise meets the conditions for the 15% preferential tax rate under the Implementation of Exploration and Development of Western Region and also meets the tax preference conditions under the EIT Laws and its implementation regulations and the requirements of the State Council, it is entitled to the tax preferences simultaneously.

During the 50% reduction period involving tax relief for a fixed period, the tax payable may be reduced by 50% based on the tax rate applicable to the enterprise.

Name of taxpayer	50% tax reduction period
Fanxing Environmental (Gulin project)	2022 – 2024
Fanxing Environmental (Longmatan, Jiangyang and Naxi projects)	2021 – 2023
Qingbaijiang Water	2023 – 2025

- ③ According to the Notice of the Preferential Income Tax Policies for Small and Micro Size Enterprises and Individual Industrial and Commercial Households by the Ministry of Finance and the State Administration of Taxation (2023 No. 12), for the part of small and low-profit enterprises, 25% shall be included in the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%. The policy will continue to be implemented until 31 December 2027.

6. DIVIDEND

A final dividend of RMB0.05 per share (tax inclusive) in respect of the year ended 31 December 2023, totalling RMB42.99 million was declared and paid to the shareholders of the Company during the Reporting Period.

Subsequent to the end of the Reporting Period, a final dividend of RMB42.99 million in total or RMB0.05 per share (tax inclusive) in respect of the year ended 31 December 2023 (2022: RMB42.99 million in total or RMB0.05 per share (tax inclusive)) has been proposed by the Board of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

7. EARNINGS PER SHARE

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

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Net profit realised by the Company (<i>RMB'000</i>)	<u>209,901</u>	<u>203,225</u>
Weighted average number of ordinary shares issued (<i>'000</i>)	<u>859,710</u>	<u>859,710</u>
Earnings per share (<i>RMB</i>)	<u>0.24</u>	<u>0.24</u>

No diluted earnings per share is presented for the year ended 2023 and 2022 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

8. TRADE RECEIVABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade Receivables	635,177	574,878
Less: Allowance for credit losses	<u>71,263</u>	<u>48,493</u>
Total trade receivables	<u>563,915</u>	<u>526,385</u>

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	399,142	386,538
1-2 years	127,161	139,577
2-3 years	69,071	39,393
3-4 years	32,401	1,629
4-5 years	1,583	6,251
Over 5 years	5,819	1,490
	<u>635,177</u>	<u>574,878</u>

9. TRADE PAYABLES

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	194,384	150,464
1-2 years	59,474	106,477
2-3 years	88,220	7,369
3-4 years	1,445	93,166
4-5 years	67,017	8,832
Over 5 years	6,597	9,809
	<u>417,137</u>	<u>376,117</u>

10. SHARE CAPITAL

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
At the end of the year	859,710	859,710
	<i>'000 shares</i>	<i>'000 shares</i>
Shares of RMB1 each		
– Domestic shares (<i>Note</i>)	644,770	644,770
– H shares	214,940	214,940
	859,710	859,710

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Industry Overview

At present, China's water industry has entered a relatively mature stage, which has basically formed a favorable situation of increasing government supervision, improvement in policies and regulations, substantial enhancement of water supply capacity, and deepening of marketization and industrialization of the water industry. However, from the perspective of per capita water resources possession, China's per capita water availability is far lower than the world average. China's per capita water resources available are only 2,200 cubic meters, accounting for 25% of the world average, and it is one of the 13 countries with the poorest per capita water resources in the world. There are 16 provinces, autonomous regions and municipalities directly under the central government in China whose per capita water resources possession is below the internationally recognized stress threshold of 1,700 cubic meters, and 10 of them are below the severe water shortage line of 500 cubic meters, especially in the northern region. Moreover, due to neglect of management and waste, the contradiction between supply and demand has become increasingly acute, putting tremendous pressure on the supply of water resources. Therefore, the government attaches great importance to water resources. Innovation in leakage control of water supply network, seawater desalination technology, treatment of black and odorous water bodies and utilization of reclaimed water will bring new opportunities for the development of water industry.

In terms of leakage control of water supply network, according to the Statistical Yearbook of Urban and Rural Construction of China (2022) published by the MoHURD that in 2022, the total amount of public water supply in cities and counties nationwide was 75.167 billion cubic meters, with a leakage volume of 9.649 billion cubic meters, a comprehensive leakage rate of 12.84%, and a production and sales differential rate of 15.48%. In particular, the total amount of urban public water supply was 63.545 billion cubic meters, with a leakage volume of 8.191 billion cubic meters, a comprehensive leakage rate of 12.89%, and a production and sales differential rate of 15.44%. According to the Notice on Enhancing Leakage Control of Public Water Supply Networks, released on the Chinese government's official website on 4 February 2022 and issued by the General Office of the Ministry of Housing and Urban-Rural Development and the General Office of the National Development and Reform Commission, the leakage rate of urban public water supply network in China will strive to be controlled within 9% by 2025, which will not only bring management challenges to water enterprises, but also bring development room for smart water enterprises engaged in leakage control of water supply network.

With the public's increasing concern about environmental issues, reclaimed water, as a sustainable water resource, has been paid more and more attention. Both the state and local governments have increased their investment in scientific research and engineering practice of reclaimed water utilization, and the reclaimed water utilization industry has developed steadily. According to statistics, the amount of reclaimed water usage in China was approximately 18 billion cubic meters in 2022, an increase of 11.77% year-on-year, with a utilization rate of urban reclaimed water of approximately 28.76%. By 2023, the reclaimed water consumption in China will reach 20.6 billion cubic meters, with a utilization rate of urban reclaimed water of 32%, which indicates that reclaimed water is more widely used in urban water supply, agricultural irrigation and ecological water replenishment. On 28 December 2023, eight departments including the Ministry of Industry and Information Technology and the National Development and Reform Commission jointly issued the Guiding Opinions on Accelerating the Transformation and Upgrading of Traditional Manufacturing Industry (MIIT Lian Gui [2023] No. 258), which explicitly proposes to promote the recycling of industrial wastewater and enhance the intensive conservation of industrial water resources. Reclaimed water utilization, sludge treatment and black and odorous water bodies treatment will also bring great opportunities for sewage treatment enterprises, pushing them to develop from a single-service sewage treatment enterprise to a comprehensive water environment treatment enterprise.

(2) Development Strategy and Outlook

In 2024, the Group will fully grasp the development opportunities, continuously implement the development philosophy of “steady development of the principal water supply and drainage business, vertical extension of upstream and downstream industries, horizontal expansion of regional business” put forward for the 14th Five-Year Plan period and adopt the management strategy of “consolidation, expansion, capital empowerment, technology leading and service improvement”. We will focus on strengthening and enhancing our long-term sustainable and healthy development and pay more attention to development quality, with a view to transforming into an intelligent water service provider driven by innovation.

The Company will concentrate on key points and root in its principal business. Efforts will be made to tap the internal potential, lower costs and boost efficiency to enhance supply and service capabilities, continuously promoting the integration of water supply and drainage in townships. The Company will fully participate in the market competition, and by closely grasping the development opportunities in the liquor industry, a specialty industry in Luzhou and shale gas, focus on expanding the industrial wastewater market for liquor-making process and shale gas and so on in the region to form the regional liquor-making wastewater treatment market on a large scale, and strive to achieve cross-provincial business development, so as to create new business formats and new profit growth points. The Company will boost its effort in technology research and development, continue to seek the intelligent control and an intelligent scheduling system for pipe leakage, build on momentum in the industry chain, intensively build the “intelligent water” technology brand to constantly enhance its core competitiveness, aiming to promote its sustainable and healthy development.

(3) Business Review

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

As at the end of the Reporting Period, we operated twelve tap water plants, nine city wastewater treatment plants, two industrial park wastewater treatment plant and five entrusted operation wastewater treatment plants. In addition, we operated several wastewater treatment facilities in urban and rural areas, and engaged in entrusted operation projects, with a total treatment capacity of approximately 1.415 million tons per day.

Tap Water Projects

As at the end of the Reporting Period, the Group owned twelve tap water plants with a daily supply capacity of approximately 774,000 tons (excluding emergency back-up sewage treatment plants). The average utilization rate of tap water plants remained unchanged at 70.19% from the end of 2022.

During the Reporting Period, our total sales of water amounted to approximately 163.4 million tons, representing an increase of 1.04% as compared with approximately 161.7 million tons for the same period of 2022. The increase was mainly due to the extended water supply areas, increased users and natural increase in water consumed by users.

Wastewater Treatment Projects

As at the end of the Reporting Period, Xinglu Wastewater Treatment owned 9 operating city wastewater treatment plants (excluding emergency back-up sewage treatment plants), with a daily treatment capacity of approximately 489,000 tons in aggregate, an increase of daily treatment capacity of 55,000 tons as compared with that in 2022, and production load rate of 77.8%, as the new Chengnan Wastewater Treatment Plant (Phase II) was put into operation in March 2023; two industrial park wastewater treatment plants, with a daily treatment capacity of 30,000 tons in aggregate; five entrusted operation wastewater treatment plants, plus a new Leshan Jingyan No. 2 Sewage Treatment Plant which was taken over and put into operation in July 2023, with a daily treatment capacity of 47,000 tons in aggregate, which represented an additional increase in daily processing capacity of 15,000 tons as compared to 2022; and a total of 294 wastewater treatment facilities in the townships and rural areas, with a daily treatment capacity of 75,000 tons in aggregate, representing an increase of 90 wastewater treatment facilities and an increase of daily treatment capacity of 22,000 tons as compared with that by the end of 2022.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 160.1 million tons, representing an increase of 6.6% as compared with that of 150.2 million tons for the same period of 2022. The increase was mainly due to an increase in the treatment volume of urban wastewater and an additional treatment volume of wastewater in Leshan Jingyan project.

(4) Financial Review

I. Analysis of Key Items in the Income Statement

1.1 Operating revenue

During the Reporting Period, operating revenue of the Group amounted to RMB1,286.4 million, decreased by 4.9% from RMB1,353.4 million for the same period of 2022. The decrease was mainly due to the decrease in the revenue from tap water and engineering installment.

1.1.1 Tap water supply

1.1.1.1 Sales of tap water

During the Reporting Period, revenue of the Group generated from sales of tap water amounted to RMB384.7 million, decreased by 6.4% from RMB411.1 million for the same period of 2022. The decrease was mainly due to decrease in the comprehensive unit price of water sales as a result of proportional decrease in the non-resident domestic water with higher unit price under the changed structure of water sales. Revenue generated from sales of tap water accounted for 30.4% and 29.9% of our total revenue for 2022 and 2023, respectively.

1.1.1.2 Engineering installation

During the Reporting Period, revenue of the Group generated from installation services amounted to RMB256.8 million, decreased by 28.6% from RMB359.5 million for the same period of 2022. The decrease was mainly due to the downward adjustment of tariff policy and the decrease in engineering installation projects. Revenue generated from installation services accounted for 26.6% and 20.2% of our total revenue for 2022 and 2023, respectively.

1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group generated from wastewater treatment amounted to RMB607.3 million, increased by 15.9% from RMB524.0 million for the same period of 2022. The increase was mainly due to the increase in wastewater treatment volume and an additional revenue from wastewater treatment of Leshan Jingyan as a result of business expansion. Revenue generated from wastewater treatment accounted for 38.7% and 47.2% of our total revenue for 2022 and 2023, respectively.

1.2 *Operating cost*

During the Reporting Period, the Group's operating cost amounted to RMB842.1 million, decreased by 2.0% from RMB859.4 million for the same period of 2022. The decrease was mainly due to a decrease in revenue from engineering installation and a corresponding decrease in engineering cost.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

During the Reporting Period, the Group's operating cost from sales of tap water amounted to RMB387.7 million, increased by 5.5% from RMB367.5 million for the same period of 2022. The increase was mainly due to the increase in depreciation cost after the investment and operation of newly built assets and the increase in electricity charge resulting from tariff adjustment. Operating cost from sales of tap water supply operations accounted for 42.8% and 46.0% of our total operating cost for 2022 and 2023, respectively.

1.2.1.2 Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB69.4 million, decreased by 52.7% from RMB146.6 million for the same period of 2022. The decrease was mainly due to a decrease in engineering projects and a corresponding decrease in cost as a result of the decrease in installation revenue. Operating cost associated with installation services accounted for 17.1% and 8.2% of our total operating cost for 2022 and 2023, respectively.

1.2.2 Wastewater treatment

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB349.7 million, increased by 15.8% from RMB301.8 million for the same period of 2022. The increase was mainly due to the increases in the volume of wastewater treatment and the revenue from wastewater treatment as well as the corresponding increase in cost from wastewater treatment. Operating cost from wastewater treatment operating services accounted for 35.1% and 41.5% of the total operating cost for 2022 and 2023, respectively.

1.3 *Gross Profit and Gross Profit Margin*

As a result of the above, the Group's gross profit amounted to RMB444.3 million during the Reporting Period, decreased by 10.1% from RMB494.0 million for the same period of 2022. Gross profit margin decreased from 36.5% for 2022 to 34.5% during the Reporting Period. The decrease in gross profit margin was mainly due to the decrease in the gross profit from tap water.

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

During the Reporting Period, the gross profit of the Group for sales of tap water under tap water supply operations amounted to RMB-3.0 million, decreased by 106.8% from RMB43.6 million for the same period of 2022. The corresponding gross profit margin decreased from 10.6% for 2022 to -0.8% during the Reporting Period. The decrease was mainly due to the decrease in the comprehensive unit price of water sales as a result of proportional decrease in the non-resident domestic water with higher unit price under the changed structure of water sales as well as the increase in electricity cost.

1.3.1.2 Engineering installation

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB187.4 million, decreased by 11.9% from RMB212.9 million for the same period of 2022. Its corresponding gross profit margin increased from 59.2% for 2022 to 73.0% during the Reporting Period. The increase was mainly due to the effective lowering of engineering cost as a result of the measures taken by the Company such as gross profit analysis and cost control and continual optimization of design plans.

1.3.2 Wastewater treatment

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB257.6 million, increased by 16.0% from RMB222.1 million for the same period of 2022, which was mainly due to an increase in the gross profit as a result of the increases in the volume of wastewater treatment and external business expansion. Its corresponding gross profit margin was 42.4%, which was as flat as that of 42.4% in 2022.

1.4 *Other revenue*

During the Reporting Period, the Group's other revenue amounted to RMB82.0 million, increased by 29.3% from RMB63.4 million for the same period of 2022. The increase was mainly due to the grants for engineering pipeline network given by the government.

1.5 *Cost of sales*

During the Reporting Period, the Group's cost of sales amounted to RMB26.1 million, increased by 7.3% from RMB24.3 million for the same period of 2022. The increase was mainly due to an increase in salaries of sales employees.

1.6 *Management expenses*

During the Reporting Period, the Group's management expenses amounted to RMB101.9 million, increased by 7.9% from RMB94.4 million for the same period of 2022. The increase was mainly due to the increase in remuneration of the management employees.

1.7 *Research and development expenses*

During the Reporting Period, the Group's research and development expenses amounted to RMB51,245, which mainly represented the sporadic research and development expenses prior to completion of the "C-MBR integrated wastewater treatment equipment" developed by Fanxing Environmental.

1.8 *Finance costs*

During the Reporting Period, the Group's finance costs amounted to RMB71.8 million, decreased by 42.7% from RMB125.2 million for the same period of 2022. The decrease was mainly due to loan interest subsidy granted by the government for new water plants.

1.9 Income tax expense

During the Reporting Period, the Group's income tax expenses amounted to RMB38.6 million, increased by 15.2% from RMB33.5 million for the same period of 2022. The increase was mainly due to the combination of an increase in deferred income tax assets as a result of the provision for bad debts on receivables and a decrease in current income tax expenses. As of 31 December 2022 and 2023, the effective tax rates of the Group were 13.1% and 14.7%, respectively.

1.10 Net profit and net profit margin

As a result of the above, the Group's net profit amounted to RMB223.9 million during the Reporting Period, increased by 0.3% from RMB223.2 million for the same period of 2022. Net profit margin increased from 16.5% for 2022 to 17.4% during the Reporting Period.

2. Analysis of Key Balance Sheet Items

2.1 Accounts receivable

Accounts receivable of the Group were RMB526.4 million and RMB563.9 million as of 31 December 2022 and 2023, respectively. The increase was mainly due to the increase in recurring accounts receivable such as wastewater treatment fee.

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

	For the year ended 31 December	
	2023	2022
Average turnover days of accounts receivable ^{Note 1}	<u>153</u>	<u>135</u>

Note:

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

2.2 Inventories

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) were RMB89.5 million and RMB74.1 million as of 31 December 2022 and 2023, respectively. The decrease was mainly due to the enhancement of inventory management and optimization of supplies procurement.

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

	For the year ended	
	31 December	
	2023	2022
Average turnover days of inventory ^{Note 2}	<u>35</u>	<u>30</u>

Note:

(2) Average turnover days of inventories: 360/number of inventories turnover, number of inventories turnover: operating cost/average balance of inventories.

2.3 Other receivables

As of 31 December 2022 and 2023, the Group's other receivables were RMB135.2 million and RMB126.2 million, respectively. The decrease was mainly due to the recovery of certain subsidy funds for the water meter transformation projects (Phase I).

2.4 Fixed assets

As of 31 December 2022 and 2023, the Group's fixed assets were RMB3,381.8 million and RMB3,334.9 million, respectively. The decrease was mainly due to provision for the depreciation of assets during the Reporting Period.

2.5 Construction in progress

As of 31 December 2022 and 2023, the Group's balance of construction in progress were RMB354.6 million and RMB573.7 million, respectively. The increase was mainly due to the increase in the number of projects under construction, such as Chengdong Wastewater Treatment Plant Phase II, Medium and High-pressure Water Pipeline from Hexi Pump Station to Naxi City District during the Reporting Period.

2.6 Intangible assets

As of 31 December 2022 and 2023, the Group's intangible assets were RMB1,396.7 million and RMB1,537.6 million, respectively. The increase was mainly due to the acquisition of franchising in Leshan Jingyan wastewater treatment plant, resulting from cross-regional business expansion.

2.7 Long-term deferred expenses

As of 31 December 2022 and 2023, the Group's long-term deferred expenses were RMB210.2 million and RMB184.4 million, respectively. The decrease was mainly due to the amortization during the Reporting Period.

2.8 Short-term borrowings

As of 31 December 2022 and 2023, the Group's short-term borrowings were RMB160.1 million and RMB60.1 million, respectively. Such decrease was mainly due to the repayment of bank short-term borrowings.

2.9 Accounts payable

As of 31 December 2022 and 2023, the Group's accounts payable were RMB376.1 million and RMB417.1 million, respectively. The increase was mainly due to the increase in the project payment payable for the Chengnan Wastewater Treatment Plant project.

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

	For the year ended	
	31 December	
	2023	2022
Average turnover days of accounts payable		
<i>Note 3</i>	<u>170</u>	<u>192</u>

Note:

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

The average turnover days of accounts payable decreased from 192 days in 2022 to 170 days during the Reporting Period, which was mainly due to the decrease in the average balance of accounts payable.

2.10 Contract liabilities

As of 31 December 2022 and 2023, the Group's contract liabilities were RMB224.4 million and RMB177.2 million, respectively. The decrease was mainly due to the decrease in engineering installation projects and revenues, resulting in a decrease in the advance collection of construction fees.

2.11 Other payables

As of 31 December 2022 and 2023, the Group's other payables were RMB228.9 million and RMB204.3 million, respectively. The decrease was mainly due to the decrease in the deposits and security deposits.

2.12 Non-current liabilities due within one year

As of 31 December 2022 and 2023, the Group's non-current liabilities due within one year were RMB216.7 million and RMB569.6 million, respectively. The increase was mainly due to the reclassification of long-term borrowings and bonds payable due within one year.

2.13 Long-term borrowings

As of 31 December 2022 and 2023, the Group's long-term borrowings were RMB1,920.9 million and RMB1,465.3 million, respectively. The decrease was mainly due to the repayment of long-term borrowings due and the impact of reclassification.

2.14 Long-term payables

As of 31 December 2022 and 2023, the Group's long-term payables were RMB744.4 million and RMB850.8 million, respectively. The increase was mainly due to the increase in special bonds for Chengdong Wastewater Treatment Plant Phase II.

2.15 Deferred income

As of 31 December 2022 and 2023, the Group's deferred income were approximately RMB243.1 million and RMB212.3 million, respectively. Such decrease was mainly due to the amortization of government grants on a monthly basis during the Reporting Period.

3 *Liquidity and Financial Resources*

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

As at the end of the Reporting Period, the cash and bank balances of the Group amounted to approximately RMB390.5 million (at the end of 2022: approximately RMB609.8 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,922.6 million (at the end of 2022: RMB3,098.4 million), including bank and other borrowings.

As at the end of the Reporting Period, the net debts to equity ratio of the Group (being calculated by total equity divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 102.3% (at the end of 2022: 91.2%).

III. OTHER INFORMATION

(1) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 905 employees (2022: 933). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB160.6 million (2022: approximately RMB152.2 million). The remunerations and benefits, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continued to adjust the new performance-based pay system and provided comprehensive career training and development plan for all employees.

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

(2) Major Acquisitions and Disposals

During the Reporting Period, the equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司) held by the Group was disposed in full to Luzhou Junyuan Asset Management Co., Ltd.* (瀘州君源資產管理有限公司), with a contract amount of RMB52.82 million. After the completion of the transaction, the Company no longer holds any equity interest in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. Please refer to the announcements of the Company dated 19 September and 5 October 2023 for details. Save as disclosed in this announcement, the Group did not have any other major acquisitions or disposals during the Reporting Period.

(3) Pledges of the Group's Assets

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

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

(4) Foreign Exchange Risks

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

(5) Contingent Liabilities

During the Reporting Period, Xinglu Wastewater Treatment received a lawsuit filed by Sichuan Xunrun Information Technology Co., Ltd. and Sichuan Yicheng Information Technology Co., Ltd. against Xinglu Wastewater Treatment in the People's Court of Luzhou (Yangtze River) Economic Development Zone on the grounds of economic contract disputes, with a total litigation amount of RMB24.7407 million, and such litigation is still under trial.

As at the date of this announcement, the Company received an indictment from Zheng Shanglin (鄭尚林) against Zhong Jiao Jian Hongfeng from the People's Court of Jiangyang District, Luzhou City, on the grounds of a dispute over the construction project payment, and the Company was the third party, with the claim involved in the case of RMB8.853 million, and such litigation is still under trial.

(6) Significant Investments Held

As at the end of the Reporting Period, the Group did not hold any significant investments.

(7) Events after the Reporting Period

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

(8) Final Dividends

The Board proposed to distribute a final dividend of RMB0.05 per share (tax inclusive) for the year ended 31 December 2023 (2022: RMB0.05 per share (tax inclusive)) to the Shareholders whose names appeared on the register of members of the Company on Friday, 12 July 2024 (the "**Record Date**") (subject to the approval of Shareholders at the annual general meeting (the "**AGM**") to be held on Friday, 28 June 2024), with the total amount being approximately RMB42.99 million. Once approved, the final dividends are expected to be paid on or before Wednesday, 31 July 2024.

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

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

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

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

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

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

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

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

(9) Closure of Register of Members

In order to determine the entitlement to attend and vote at the AGM to be held on Friday, 28 June 2024, the register of members of the Company will be closed from Friday, 21 June 2024 to Friday, 28 June 2024 (both days inclusive), during which period no transfer of shares will be effected. The Record Date for entitlement to attend and vote at the AGM is Friday, 21 June 2024. In order to be qualified to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Thursday, 20 June 2024.

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Tuesday, 9 July 2024 to Friday, 12 July 2024 (both days inclusive), during which period no transfer of shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Friday, 12 July 2024. In order to be qualified to obtain final dividends, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Monday, 8 July 2024.

If there is any change in the above expected timing and distribution, the Company will make necessary announcement(s) as and when appropriate.

(10) Audit Committee

The primary responsibilities of the Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company's website and the website of the Hong Kong Stock Exchange.

The Audit Committee has reviewed this annual results announcement and the consolidated financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

(11) Nomination and Remuneration Committee

During the Reporting Period, the member of the nomination and remuneration committee of the Company (the "**Nomination and Remuneration Committee**"), i.e. Mr. Yu Long, retired on 13 December 2023. During the fifteenth meeting of the second session of the Board held on the same day, the Company appointed a non-executive Director Ms. Zhang Guanghui as a new member of the Nomination and Remuneration Committee.

The primary responsibilities of the Nomination and Remuneration committee are to make recommendations to the Board on the appointment and removal of the Directors and senior management of the Company, establish and review the policy and structure of the remuneration for the Directors and senior management of the Company, make recommendations on employee benefit arrangement and to review and approve matters relating to share schemes under Chapter 17 of the Listing Rules. The terms of reference of the Nomination and Remuneration Committee are available for inspection on the Company's website and the website of the Hong Kong Stock Exchange.

(12) Strategy Committee

During the Reporting Period, the member of the strategy committee of the Company (the "**Strategy Committee**"), i.e. Mr. Chen Bing, retired on 13 December 2023. During the fifteenth meeting of the second session of the Board held on the same day, the Company appointed a non-executive Director, Mr. Xu Fei as a new member of the Strategy Committee.

The primary responsibilities of the Strategy Committee are to formulate the operation goals and long-term development strategies of the Company, make proposals on major events and supervise the implementation of annual operating plans and proposals. The terms of reference of the Strategy Committee are available for inspection on the Company's website and the website of the Hong Kong Stock Exchange.

(13) Change in Directors, Supervisors and Chief Executives' Information

On 19 July 2023, Mr. Xu Guanghua was appointed as an employee representative Director of the second session of the Board and served as an executive Director after the approval of the employee representative meeting of the Company. His term of office commenced from 19 July 2023 till the expiry of the second session of the Board. With effect from 19 July 2023, Ms. Huang Mei ceased to be an executive Director.

Further to the approval of the first 2023 extraordinary general meeting held on 13 December 2023, Mr. Chen Qinan was appointed as an executive Director of the second session of the Board, and Mr. Xu Fei and Ms. Zhang Guanghui were appointed as non-executive Directors of the second session of the Board. Their respective terms of office commenced from 13 December 2023 till the expiry of the second session of the Board. At the 16th meeting of the second session of the Board convened immediately after the aforementioned extraordinary general meeting, Mr. Chen Qinan, an executive Director, was appointed as the general manager of the Company, with a term effective from the conclusion of the Board meeting to the expiry of the term of the second session of the Board. Mr. Liao Xingyue ceased to be an executive Director and general manager, and Mr. Chen Bing and Mr. Yu Long ceased to be non-executive Directors with effect from 13 December 2023.

For details, please refer to announcements of the Company dated 19 July 2023, 21 November 2023 and 13 December 2023, as well as the circular dated 24 November 2023.

(14) Compliance with the Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees of the Group. The Company had adopted all the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix C1 to the Listing Rules, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

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

(15) Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions of the Company by the Directors, supervisors and employees of the Group who, by reason of their office or employment, may have inside information about the Group or the Company’s securities. The Company has made specific inquiries to all Directors and supervisors, and all Directors and supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance with the Model Code by the relevant employees during the Reporting Period.

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

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

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

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

(18) Public Float

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

IV. REVIEW OF ANNUAL RESULTS

Scope of work of ShineWing Certified Public Accountants LLP

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this results announcement have been audited by the Group's auditor, ShineWing Certified Public Accountants LLP ("SHINEWING"), to the amounts set out in the Group's consolidated financial statements for the Reporting Period.

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

This announcement of annual results has been published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The annual report of the Group for the year ended 31 December 2023 will be dispatched to the Shareholders and released on the above websites of the Hong Kong Stock Exchange and the Company in due course.

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

Luzhou, the PRC,
27 March 2024

As at the date of this announcement, the Board comprises of (i) three executive directors, namely Mr. Zhang Qi, Mr. Chen Qinan and Mr. Xu Guanghua; (ii) three non-executive directors, namely Mr. Xu Fei, Ms. Zhang Guanghui and Ms. Hu Fenfen; and (iii) three independent non-executive directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.

* *For identification purposes only*