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**GREAT WATER
GREAT WATER HOLDINGS LIMITED**

建禹集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8196)

SUPPLEMENTAL ANNOUNCEMENT ON THE 2020 ANNUAL REPORT

Reference is made to the annual report for the year ended 31 December 2020 (the “**Annual Report**”) of Great Water Holdings Limited (the “**Company**”) published on 30 March 2021.

The Company would like to provide the following additional information with respect to the impairment losses (the “**Impairments**”) on financial and contract assets of RMB82.6 million in relation to the long-aged receivables (the “**Trade Receivables**”), the contract assets (the “**Contract Assets**”) and long-aged prepayment (the “**Prepayment**”) of the relevant Impairments.

(1) BACKGROUND IN RECOGNISING TRADE RECEIVABLES AND REVENUE OF THE GROUP

The Group mainly provides the following services.

- (1) environmental engineering services, which includes the design, civil construction, organization of equipment production and procurement, installation, commissioning services; and
- (2) equipment supply services, which includes the provision of technical advice, organization of equipment production and procurement and commissioning services.

In recognising contractual revenue, the Group applies HKFRS 15, which recognises revenue when control of the promised goods or services is transferred to the customer. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

- (1) for environmental engineering services, the input method is used, which recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services under a contract (the “**Input Method**”); and

- (2) for equipment supply services, the point in time when control of the asset is transferred to the customer is usually on delivery of the equipment (the “**Transfer Control Method**”).

The receipt and recognition of revenue is subject to the delivery of the end-product, which in-line with market practice, requires the final inspection and acceptance by the customer and the government authorities.

Under market practice and normal circumstances, final inspection usually takes place within one year from the date of completion of the construction work, with a small number taking place within two to three years from the date of completion of the construction work. For the five years preceding the 2021, the total number of projects of the Group in which the final inspection did not take place within one year accounted for only approximately 15% of the total number of projects undertaken by the Group.

(2) THE TRADE RECEIVABLES AND THE CONTRACT ASSETS

For the year ended 31 December 2020, the Group recognised RMB43,804,000 impairment loss on trade receivables in the aggregate amount of RMB157,264,000.

Customer	Amount of the Trade Receivables RMB'000	Amount of the impairment loss recognised in 2020 RMB'000
Customer A	23,296	15,608
Customer B	16,760	15,761
Customer C	11,243	10,051
Customer D	1,599	1,447
Other Customers	<u>104,366</u>	<u>937</u>
Total	<u><u>157,264</u></u>	<u><u>43,804</u></u>

For the year ended 31 December 2020, the Group recognized RMB15,176,000 impairment loss on contract assets in the aggregate amount of RMB72,870,000.

Customer	Amount of the Contract Assets RMB'000	Amount of the impairment loss recognized in 2020 RMB'000
Customer A	19,357	12,991
Customer D	2,134	2,108
Other Customers	<u>51,379</u>	<u>77</u>
Total	<u><u>72,870</u></u>	<u><u>15,176</u></u>

Details of the circumstances of the relevant customers are set out below.

Customer A

In October 2016, the Group entered into a contract with Customer A for the construction of three sewage treatment projects and three water supply projects in Guangxi Province.

The Input Method was used in recognising the contract amount with respect to Customer A.

The total contract amount for Customer A is RMB76,655,000 (inclusive of VAT). As at 31 December 2020, one of the water supply projects in the contract amount of RMB6,000,000 (inclusive of VAT) has not commenced construction. As to the remainder contract amount of RMB70,655,000 (inclusive of VAT):

- (1) RMB49,460,000 (inclusive of VAT) has been booked to “account receivables”. RMB26,164,000 was received between 2017 and 2019. The outstanding amount of account receivables as at 31 December 2020 was RMB23,296,000.
- (2) RMB21,195,000 (inclusive of VAT) has been booked under contract asset as such amount has not fulfilled the corresponding contractual payment terms to be booked under account receivables. The balance under the contract assets (exclusive of VAT) was RMB19,357,000 as at 31 December 2020.

To the understanding of the Company, the local authorities provided subsidies for this category of projects and part of the subsidies was provided to the customer during the construction process, which was then paid to the Group by Customer A. However, due to the impact of the epidemic in 2020, the allocation of local government funds was affected and therefore the payment of subsidies was delayed, resulting in the delay in payment from Customer A to the Group. Furthermore, during the construction process of the projects, some of the matters requiring approval and adjustment by the local authorities were also delayed, affecting completion of the final work of the project, which led to certain construction content not meeting the relevant payment conditions. As such, part of the outstanding amount was temporarily included in the contract assets. In view of the above, the Group understands that the customer has appointed a staff to communicate with the relevant departments in hope that the subsidy payment and the aforementioned approval and adjustment matters could be processed faster.

For the outstanding amount of account receivables as at 31 December 2020 of RMB23,296,000, a provision for impairment of RMB7,687,000 has been made before 2020, the balance of RMB15,608,000 was fully impaired in 2020.

The balance of contract assets from Customer A as at 31 December 2020 was approximately RMB19,357,000 and a provision for impairment of RMB6,366,000 has been made before 2020, the balance of RMB12,991,000 will be fully impaired in 2020.

The Group considered the following factors when determining the relevant impairment:

- (1) When the Group prepared the 2020 consolidated financial statements in mid-January 2021, it had examined the business risks of the customer in accordance with its usual practice. At the relevant time, the Group was aware of (i) the impact of the COVID-19 pandemic on the customers and the suppliers; and (ii) there was no significant difference between the public information available in examining their operating risks from 2020.
- (2) At the end of February, the Group lost contact with a key management personnel of Customer A, and that person was (1) the person responsible for communicating on behalf of Customer A with government departments in hope that the processing of subsidy payments and related approval and adjustment matters could be expedited, and (2) the legal representative and shareholder of one of Customer A's shareholder.

The Group believed that the loss of contact will lead to (1) greater uncertainty in the disbursement of government subsidies; (2) deterioration of the financial position of the customer; and (3) a significant increase in the uncertainty of payment collection. Moreover, there was no record of payment from the customer for almost two years and the Group was unable obtain any written payment schedule from the customer till the date of annual report. Therefore, the Group has decided to make full provision for impairment of the receivable balance and the contracted asset balance of Customer A.

Customer B

In February 2017, the Group entered into a contract with Customer B for equipment supply for one sewage treatment project in Liaoning Province.

The Transfer Control Method was used in recognizing the contract amount with respect to Customer B.

To the understanding of the Company, Customer B was not the end-user of the equipment. It relied on the payment of its end-user as funds for payment for the Group's services. Between Customer B and the Group, "final inspection and acceptance" has taken place, hence the Company accounted the contract amount as "account receivable". However, between Customer B and its end user, final inspection and acceptance has not taken place as it required further governmental approvals. The Company was given to understand that payment by Customer B to the Group will be delayed until final acceptance by its end-users.

The balance of account receivables from Customer B as at 31 December 2020 was approximately RMB16,760,000 and a provision for impairment of RMB999,000 has been made before 2020, the balance of RMB15,761,000 was fully impaired in 2020.

In addition to the first factor in determining the impairment for Customer A, the Group also took into account that in March 2021, the Group discovered that the customer did not have sufficient funds to pay for its previous unsuccessful litigation and had started to use the its construction land use rights and buildings to possibly offset the debt on the basis that the court announced that an appraisal agency had been appointed to

appraise the customer's land and buildings and the appraisal was for the purpose of enforcing the judgment by the successful party to the litigation. The total amount of debt was over RMB30 million. The Group considered that the customer may have significant cash flow and going concern problems. Moreover, there was no record of payment from the customer for two years and the Group was unable obtain any written payment schedule from the customer till the date of annual report. Therefore, the Group decided to make a full provision for impairment of the receivable balance of the customer.

Customer C

Between May 2015 and October 2016, the Group entered into five equipment supply contracts of sewage treatment projects located in various provinces in the PRC.

The Transfer Control Method was used in recognizing the contract amount with respect to Customer C.

To the understanding of the Company, Customer C was not the end-user of the equipment. It relied on the payment of its end-user as funds for payment for the Group's services.

The amount owed by this customer mainly represented warranty or final payment of projects. The balance of receivables from this customer as at 31 December 2020 was approximately RMB11,243,000 and a provision for impairment of RMB1,192,000 has been made before 2020, the balance of RMB10,051,000 will be fully impaired in 2020.

In addition to the first factor in determining the impairment for Customer A, the Group also took into account that in February and March 2021, negative comments on the full-year performance of this customer were received from the industry, and it is expected that its revenue and profit would drop substantially year-on-year. Considering that Customer C was mainly engaged in municipal wastewater and water supply investment and operation, according to the industry practice, companies with this business model should normally be able to maintain a stable revenue and profit, therefore, the Group was of the view that the customer could be facing a shrinkage in scale and the Group would have difficulties in recovering the outstanding amount. Moreover, there was no record of payment from the customer for three years and the Group was unable obtain any written payment schedule from the customer till the date of annual report. Therefore, the Group has decided to make full provision for impairment of the receivable balance and the contracted asset balance of this customer.

Customer D

In June 2016 and June 2017, the Group entered into a contract with Customer D for the construction of one sewage treatment project in Guangdong Province and Jiangsu Province, respectively.

The Input Method was used in recognizing the contract amount with respect to Customer D.

To the understanding of the Company, Customer D was not the end-user of the equipment. It relied on the payment of its end-user as funds for payment for the Group's services. The end-user was a Korean-funded enterprise which mainly manufactures electrical and mechanical equipment. Due to the relevant policy adjustment, some of the projects were suspended and Customer D had to discuss with its end-user on the specific adjustment plan and go through the corresponding procedures, resulting in Customer D not being able to obtain payments from the end-user for payment to the Group.

The balance of receivables from this customer as at 31 December 2020 was approximately RMB1,599,000 and a provision for impairment of RMB152,000 has been made before 2020, the balance of RMB1,447,000 was fully impaired in 2020.

In addition to the first factor in determining the impairment for Customer A, the Group also took into account that in 2021, new litigation cases were emerging from this customer and the Group became aware that the bank account of the customer was partially frozen for deposits due to litigation, the Group estimates that this customer will probably have a major cash flow problem. Moreover, there was no record of payment from the customer for three years and the Group was unable obtain any written payment schedule from the customer till the date of annual report. Therefore, the Group decided to make full provision for impairment of the receivable balance of this customer.

Other customers

“Other Customers” comprise about 30 customers involving about 10 construction projects, 22 equipment supply projects, 6 operating and maintenance projects and 2 technical advisory projects.

Internal control and measures taken by the Group

Notwithstanding the pro-active measures taken by the Group as set out below, as disclosed above, the major reasons for non-payment were not foreseeable by the Group, including (i) delays in plans due to the COVID pandemic; (ii) the customers' respective end-user recovery; and (iii) unforeseen litigation of the customers.

In addition to the contractual rights that the Company may have under the agreements entered between the Group and its customers, the Company has the following measures and controls in place with respect to collection of payments.

- (1) The Group has a dedicated team comprising 6 to 8 employees for customers relations. Each customer is assigned to one of these employees who is responsible for contacting and liaising with such customer. The work performed by these employees include the following.
 - (i) making regular calls to customers (approximately once every one to two months) on the timing of the collection of payments;

- (ii) for customers who delayed in payment, the employee will be in touch with the customers, requesting customers to provide relevant written repayment schedules and following up for those customers on the execution of the repayment plans; and
 - (iii) collecting market data based on publicly available information of the customers to assess their legal, tax, commercial and business risks and repayment ability.
- (2) The customers relations team, finance team and senior management meet regularly at least once and usually twice a month. During the meeting, the customers relations team will update the other departments on payment collections. In particular, they are required to explain the reasons and measures undertaken with respect to delayed payments. The participants of the meeting will discuss and assess the effectiveness of any measures taken and the appropriate next steps.
- (3) On a broader spectrum, the Group has an internal audit team, comprising members who are of management level of different divisions of the Group, which conducts internal risk assessments and audits of the Group's business risks, financial risks, compliance risks as well as operational and other risks, which reports to the Audit Committee and the Board. The Audit Committee assists the Board by providing advice on the effectiveness of the financial reporting process and internal control and risk management systems, and oversees the audit process.

Generally, prior to entering into the contracts with any customers (including customers A to D), the Company will perform the following risk assessments:

- (1) inspection of the validity of the business licenses for the customers;
- (2) based on publicly available information, check whether the potential customer has a normal industrial/commercial/tax status and whether there is tax evasion or unfair competition record for the potential customer;
- (3) litigation search based on publicly available information- whether there is a large number of litigation. In the event of unsuccessful litigation, whether there is a large amount of outstanding debts;
- (4) ensure that the contract entered into by both parties is in line with industry practice; and
- (5) check whether there are negative evaluation of the business ability of the potential customer in the industry.

(3) THE PREPAYMENT

For the year ended 31 December 2020, the Group recognized RMB23,600,000 impairment loss on the Prepayment in the aggregate amount of RMB23,600,000.

Customer	Amount of the Prepayment <i>RMB'000</i>	Amount of the impairment loss recognized in 2020 <i>RMB'000</i>
Supplier G	10,600	10,600
Supplier H	8,000	8,000
Sub-contractor I	<u>5,000</u>	<u>5,000</u>
Total	<u><u>23,600</u></u>	<u><u>23,600</u></u>

Supplier G and Sub-contractor I

In July 2016, the Group entered into a contract with Supplier G for the supply of equipment for one sewage treatment project in Guangdong Province. The contract amount was RMB17,700,000. Approximately RMB6 million was advanced in 2016.

In July 2018, the Group entered into a contract with Supplier G for the supply of R&D equipment. The contract amount was RMB4,811,000. Approximately RMB4.6 million was advanced in 2018.

In September 2016, the Group entered into a contract with Sub-contractor I for the construction of the sewage treatment project in Guangdong Province. The contract amount was RMB12,428,000. Approximately RMB5 million advanced in 2016.

At the time of commencement of the project, the Group was given to understand that the customer of the project requested for a very tight timetable. To ensure timely delivery of the equipment and for cost control purposes, the Group ordered and made payments to the suppliers upon signing of the contracts with the relevant customers.

After entering into the supply contract with the Group, the customer to the project underwent a change of control. The contract for the provision of services for the sewage treatment project was entered into in 2016. In the second half of 2016, the Group was informed by the customer that the customer would introduce a new investor, who would conduct further review of the services to be provided by the Group. As such, the Group informed Supplier G and Subcontractor I of the temporary suspension of the sewage treatment project and possible adjustments to the supply requirements. In 2017, the Group was informed that the new investor became a shareholder of the customer. In 2019, the Group was informed that the new investor became the controlling shareholder of the customer. Under the management and control of the new controlling shareholder, the customer requested multiple adjustments to the original contract. The Group and the

customer kept dialogue about the adjustment of the project design during between 2017 to 2020 but was not able to reach an agreement. The sewage treatment project was terminated in 2020.

The Group notified Supplier G and Subcontractor I of the termination of the sewage treatment project and requested the return of the advance payment.

For Supplier G, the Company negotiated with Supplier G that (1) if the supplier became the Group's supplier for new projects in 2021, the entire balance of the prepaid account will be transferred to the amount to be paid of the new projects; and (2) if the supplier does not become the Group's supplier for new projects this year, while the remaining amount is estimated to be refunded by instalment over the next 2 years. For the R&D equipment, based on the information provided by Supplier G, the Group was given to understand that if it no longer needs to change the specifications of the R&D equipment, it is expected that the production of the equipment is expected to be completed within 12 to 18 months.

For Sub-contractor I, the Company negotiated for refund of the prepayment in the next 2 years. The parties are working towards entering into of a supplemental agreement as soon as possible.

In March 2021, the Group became aware that the routine business and taxation review of the supplier based on public filings at the local government authority where the supplier was registered was not completed within a reasonable period of time. The Group was unable to reach a written repayment agreement with Supplier G and Subcontractor I as at the date of publication of the annual results. The Group decided to make a full provision for impairment of the advance payment to Supplier G and Subcontractor I.

Under the contract entered into between the Group and the customer of the Group pursuant to which the Group ordered from Supplies G and Sub-contractor I, the customer shall compensate the direct loss of the Group due to the customer's breach of contract (the "**Compensation Clause**"). The Group is consulting with its PRC legal advisors on the merits of any possible claims against the relevant customer.

Supplier H

In April 2015, the Group entered into a contract with Supplier H for the supply of equipment for one sewage treatment project in Guangdong Province. The contract amount was RMB19,000,000. Approximately RMB8 million was advanced in 2016.

The Group was given to understand that the customer to the sewage treatment project had to make substantial adjustments to its original plans to obtain the relevant government authorities approval. The approved plan was different from the original plans presented to the Group. Having considered that the profit margin for the approved plan was marginal, the Group decided to terminate the sewage treatment project in 2020.

The Group notified the supplier that it would terminate the contracts in accordance with the terms of the contracts. As such, the procurement of the corresponding equipment from them had been terminated at the end of 2020. The Company negotiated with the supplier that (1) if the supplier becomes the Group's supplier for new projects in 2021, the entire balance of the prepaid account will be transferred to the amount to be paid of the new projects; and (2) if the supplier does not become the Group's supplier for new projects this year, any refunds is estimated to be refunded by instalments over the next 2 years. The parties were working towards entering into of a supplemental agreement.

However, during the preparation of the 2020 annual results, the Group discovered that the supplier filed claims against third parties and the Group estimated that even if it succeeded in the claims, the chance of receiving compensation would still be low due to the high number of claims faced by the counterparty to the claim. The Group believed that this may result in a shortfall in cash flow for the supplier.

Internal controls and measures taken by the Group

Generally, prior to entering into the contracts with any suppliers, the Company will perform the risk assessments set out under the paragraph headed “(2) THE TRADE RECEIVABLES AND THE CONTRACT ASSETS” above. Prior to making orders with suppliers, the Group will generally endeavour to include the Compensation Clause in the underlying contracts with its customers and, from time to time, will include payment of deposits clauses by the customer to cover the Group's costs in making orders with the suppliers. In addition, the Group will assess the timetable of the underlying projects, the operational and financial status of its customers prior to making any orders.

The Group did not terminate the relevant agreements with the suppliers between 2017 and 2019. In making such decision, the Group considered the following factors as a whole:

- (1) the Group was still negotiating with the customers in hope that the relevant projects may commence or be resumed at any time, in which the Group may be faced with cost increase; and
- (2) the Group had other business cooperation with Supplier G and Supplier H for procurement or engineering services and they were completed successfully. The Group maintained a good relationship with Supplier G and Supplier H.

(4) DETERMINING THE AMOUNT OF THE IMPAIRMENTS

In arriving at the impairment amounts, having considered all the factors with respect to each of the customers and suppliers as set out above, the Company applied the “expected credit loss” model, the relevant accounting policies, the major assumptions and inputs have been set out under Note 2.4 to the consolidated financial statements, Note 20 “Trade Receivables and Bills Receivables”, Note 21 “Contract Assets”, and Note 22 “Prepayments, Other Receivables and Other Assets” in the annual report.

The Company will keep the shareholders informed of any material development in connection with the above as and when appropriate.

By order of the Board
Great Water Holdings Limited
XIE Yang
Chairman

Guangzhou, the PRC, 2 July 2021

As at the date of this notice, the Board comprises two executive Directors, Mr. Xie Yang and Mr. He Xuan Xi; one non-executive Director, Ms. Gong Lan Lan and three independent non-executive Directors, Mr. Ha Cheng Yong, Mr. Tse Chi Wai and Ms. Bai Shuang.