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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017:

- Revenue amounted to approximately RMB385.8 million, representing a decrease of about 13.3% over the same period last year.
- Profit for the period amounted to approximately RMB53.1 million, representing a decrease of about 26.6% over the same period last year.
- Profit attributable to owners of the Company amounted to approximately RMB48.8 million, representing a decrease of about 23.7% over the same period last year.
- Basic earnings per share amounted to approximately RMB0.06, representing a decrease of 40% over the same period last year.
- The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2017.

The board of directors (the "**Board**") of Luzhou Xinglu Water (Group) Co., Ltd.* (the "**Company**" or "**we**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**") together with comparative figures for the same period in 2016.

I. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**385,770**	444,969
Cost of sales and services		**(277,469)**	(344,661)
Gross profit		**108,301**	100,308
Other income, expenses, gains and losses, net	*5*	**7,397**	16,142
Selling and distribution expenses		**(6,659)**	(4,477)
Administrative expenses		**(26,547)**	(18,950)
Listing expenses		**(7,722)**	(1,092)
Finance costs	*6*	**(12,174)**	(6,630)
Profit before tax	*8*	**62,596**	85,301
Income tax expense	*7*	**(9,546)**	(13,023)
Profit for the period		**53,050**	72,278
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		**48,838**	63,994
– Non-controlling interests		**4,212**	8,284
		53,050	72,278
Earnings per share *(RMB)*	*10*		
– Basic		**0.06**	0.10
– Diluted		**0.06**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**37,769**	37,002
Investment properties		**13,297**	13,359
Intangible assets	*11*	**1,133,720**	1,022,144
Prepaid lease payments		**78,648**	78,141
Prepayments for prepaid lease payments		**4,000**	4,000
Receivables under service concession arrangements	*11*	**754,737**	761,901
Available-for-sale investments		**53,630**	53,630
Deferred income tax assets		**6,329**	5,104
		2,082,130	1,975,281
CURRENT ASSETS			
Inventories		**26,165**	17,395
Receivables under service concession arrangements	*11*	**12,878**	11,294
Amounts due from customers for contract works		**9,516**	8,470
Trade receivables	*12*	**120,459**	83,717
Prepaid lease payments		**1,749**	1,637
Prepayments and other receivables		**13,820**	29,774
Restricted bank balance		**–**	5,000
Bank balances and cash		**719,966**	526,569
		904,553	683,856
CURRENT LIABILITIES			
Borrowings		**266,168**	319,674
Trade payables	*13*	**11,550**	10,442
Advances from customers and other payables		**290,174**	319,915
Provisions		**10,383**	14,214
Current income tax liabilities		**17,754**	21,205
		596,029	685,450
NET CURRENT ASSETS (LIABILITIES)		**308,524**	(1,594)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,390,654**	1,973,687

	Notes	**At 30 June 2017** *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
CAPITAL AND RESERVES			
Share capital	*14*	**859,710**	664,310
Reserves		**844,070**	625,474
Equity attributable to owners of the Company		**1,703,780**	1,289,784
Non-controlling interests		**84,789**	81,489
TOTAL EQUITY		**1,788,569**	1,371,273
NON-CURRENT LIABILITIES			
Borrowings		**337,255**	365,609
Deferred revenue		**125,191**	128,639
Provisions		**127,109**	96,544
Deferred income tax liabilities		**12,530**	11,622
		602,085	602,414
		2,390,654	1,973,687

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("**IFRSs**") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements but the application may have impact on disclosures in the consolidated financial statements for the year ending 31 December 2017.

3. REVENUE

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tap water supply		
– Tap water	**97,790**	81,167
– Installation and maintenance services	**67,726**	61,538
– Construction and upgrade services of tap water supply infrastructure	**131,688**	114,337
	297,204	257,042
Wastewater treatment		
– Operating service	**70,462**	53,463
– Interest income on receivables under service concession arrangements	**17,897**	10,202
– Construction and upgrade services of wastewater treatment infrastructure	**207**	124,262
	88,566	187,927
	385,770	444,969

4. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("**CODM**"), during the 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 IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply and related construction, installation and maintenance services

- Wastewater treatment – provision of wastewater treatment service and related construction service

The tap water supply segment includes the Company and its subsidiaries mainly providing tap water supply and related construction, installation and maintenance services in the People's Republic of China (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 (the "**Directors**"), they have similar economic characteristics and provide tap water supply and related construction, installation and maintenance services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

Segment revenue and results

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**97,790**	81,167
– Installation and maintenance services	**67,726**	61,538
– Construction and upgrade services of tap water supply infrastructure	**131,688**	114,337
– Inter-segment sales		
– Tap water	**144**	79
Wastewater treatment		
– From external customers		
– Operating service	**70,462**	53,463
– Interest income on receivables under service concession arrangements	**17,897**	10,202
– Construction and upgrade services of wastewater treatment infrastructure	**207**	124,262
Elimination*	**(144)**	(79)
Revenue	**385,770**	444,969

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment results		
– Tap water supply	**17,771**	40,314
– Wastewater treatment	**43,001**	33,056
Unallocated expenses	**(7,722)**	(1,092)
Profit after tax	**53,050**	72,278

* Inter-segment sales for the six months ended 30 June 2016 and 2017 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 profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	At 30 June	At 31 December
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Segment assets		
– Tap water supply	**1,873,575**	1,512,283
– Wastewater treatment	**1,113,148**	1,127,716
Unallocated corporate assets	**–**	19,178
Elimination	**(40)**	(40)
Consolidated total assets	**2,986,683**	2,659,137
Segment liabilities		
– Tap water supply	**675,494**	699,710
– Wastewater treatment	**522,431**	579,998
Unallocated corporate liabilities	**229**	8,196
Elimination	**(40)**	(40)
Consolidated total liabilities	**1,198,114**	1,287,864

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly other than unallocated corporate assets (representing deferred listing expenses) and unallocated corporate liabilities (representing listing expenses payable).

5. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**1,333**	544
Deferred revenue in respect of government grants recognised	**3,448**	3,947
Value-added-tax ("**VAT**") refunds *(Note (a))*	**9,874**	5,686
Commission income on garbage fees collected for government bureau	**35**	490
Late charges on tap water users	**1,148**	1,207
Rental income less outgoings	**301**	407
Gains on disposal of property, plant and equipment, net	**–**	956
Gain on disposal of prepaid lease payments	**–**	654
Gain on disposal of investment properties	**–**	1,746
Impairment losses on trade and other receivables	**(198)**	(366)
Sewage charges	**(116)**	–
Foreign exchange losses, net	**(7,586)**	–
Donations	**(204)**	(44)
Others *(Note (b))*	**(638)**	915
	7,397	16,142

Notes:

a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards prescribed.

b. Others mainly include water quality inspection fees and related costs, gain or losses on sale of sanitaryware and other materials, etc.

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank borrowings	**11,549**	11,304
Interest on other borrowings	**166**	2,578
Unwinding of the discount	**2,714**	1,774
	14,429	15,656
Less: Amount capitalised in qualified assets	**(2,255)**	(9,026)
	12,174	6,630

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**9,863**	10,021
Deferred tax	**(317)**	3,002
Total income tax recognised in profit or loss	**9,546**	13,023

The Group entities are subject to PRC Enterprise Income Tax ("**EIT**") at 25% during the six months ended 30 June 2017 (Six months ended 30 June 2016: (unaudited) 25%), except for the following group entities:

Name of company	**Applicable EIT rate**	**Financial periods**
The Company*	15%	Six months ended 30 June 2016 and 2017

Name of company	Applicable EIT rate	Financial periods
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("**Sitong Design**")**	10%	Six months ended 30 June 2016 and 2017

* According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. The aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business is expected to account for more than 70% of their total revenue for the year ending 31 December 2017, and therefore enjoy the preferential EIT rate of 15% for the period.

** Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the three years ending 31 December 2017, small scale and low profit margin companies with annual taxable income of less than RMB200,000 (inclusive of RMB200,000) shall be subject to a EIT rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfies the criteria of a small-scale and low profit-margin company, it shall be eligible for the preferential effective tax rate of 10%.

8. PROFIT BEFORE TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**2,068**	3,419
Depreciation of investment properties	**224**	242
Amortisation of intangible assets	**20,319**	12,360
Amortisation of prepaid lease payments	**845**	754
Staff costs:		
– Salaries, wages and welfare	**45,569**	34,044
– Retirement benefit schemes contributions	**8,975**	7,135
Total staff costs	**54,544**	41,179
and after crediting:		
Gross rental income from investment properties	**457**	555
Less: Direct operating expenses incurred for investment properties that generated rental income	**(156)**	(148)
	301	407

9. DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: (unaudited) Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Profit attributable to the owners of the Company *(RMB'000)*	**48,838**	63,994
Weighted average number of ordinary shares issued *('000)*	**763,629**	617,668

During the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the over-allotment option granted by the Company in relation to the Global Offering (as defined in note 18(b)) because the exercise price of the over-allotment option was higher than the average market price for the Company's shares during the life of the over-allotment option.

No diluted earnings per share is presented for the six months ended 30 June 2016 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

11. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The Group's intangible assets represent operating concession in respect of tap water supply and wastewater treatment service are as follows:

	RMB'000
Cost	
At 31 December 2016 (audited)	1,151,207
Addition	131,895
At 30 June 2017 (unaudited)	**1,283,102**
Accumulated amortisation	
At 31 December 2016 (audited)	(129,063)
Amortisation for the period	(20,319)
At 30 June 2017 (unaudited)	**(149,382)**
Carrying amounts	
At 30 June 2017 (unaudited)	**1,133,720**
At 31 December 2016 (audited)	1,022,144

The intangible assets of the Group are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

Included in the intangible assets of the Group as at 30 June 2017 of RMB366.8 million (31 December 2016: (audited) RMB239.4 million) are intangible assets recognised under service concession arrangements that have yet to be in operation and have been allocated to individual cash generating units ("**CGUs**") in tap water supply and wastewater treatment segments.

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the CGUs as at 31 October 2016 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging 13.7% to 16.8% per annum. No growth on cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff; CGUs' past performance and management's expectation for the forecast growth in usage of tap water from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable and have no significant changes during the period. With reference to the estimation of the recoverable amounts of the CGUs calculated as mentioned above, the Directors opined that there is no impairment of any of its CGUs containing the Group's intangible assets as at 30 June 2017.

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements are as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-current portion	**754,737**	761,901
Current portion	**12,878**	11,294
	767,615	773,195
Expected collection schedule is analysed as follows:		
Within one year	**12,878**	11,294
More than one year, but not exceeding two years	**15,645**	14,493
More than two years, but not exceeding three years	**17,565**	16,821
More than three years, but not exceeding four years	**18,739**	18,325
More than four years, but not exceeding five years	**19,598**	19,163
Over five years	**683,190**	693,099
	767,615	773,195

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% (31 December 2016: (audited) 3.51% to 6.00%) per annum. Given (i) the counterparties in the Group's receivables under service concessions arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments in the past; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment and no impairment in the Group's receivables under service concessions arrangements during the period. While the Directors consider the credit risk is minimal, the collection of receivables under services concession arrangements is closely monitored by the Directors in order to minimise any credit risk associated with the receivables.

12. TRADE RECEIVABLES

	At 30 June 2017 *RMB'000* (unaudited)	At 31 December 2016 *RMB'000* (audited)
Trade receivables	**121,994**	85,135
Less: Impairment	**(1,535)**	(1,418)
	120,459	83,717

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment customers.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for doubtful debts:

	At 30 June 2017 *RMB'000* (unaudited)	At 31 December 2016 *RMB'000* (audited)
Within 3 months	**76,192**	50,661
Between 4 months and 6 months	**38,303**	4,133
Between 7 months and 12 months	**3,161**	2,609
Over 1 year	**2,803**	26,314
	120,459	83,717

Trade receivables disclosed below are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Age of trade receivables that are past due but not impaired is analysed as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Overdue by:		
Within 3 months	**42,028**	6,076
Between 4 months and 6 months	**2,746**	2,609
Between 7 months and 12 months	**437**	–
Over 1 year	**2,803**	26,314
	48,014	34,999

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of the reporting period.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds could be recovered. The Group does not hold any collateral over these balances.

13. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 6 months	**7,466**	7,599
Between 7 months and 12 months	**2,425**	677
Over 1 year	**1,659**	2,166
	11,550	10,442

The credit period on purchases are generally within 6 months.

14. SHARE CAPITAL

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Registered, issued and fully paid:		
At beginning of the period/year	**664,310**	600,000
Capital injections *(Note (a))*	**–**	64,310
Issue of new ordinary shares *(Note (b))*	**195,400**	–
At end of the period/year	**859,710**	664,310

	'000 **(unaudited)**	'000 (audited)
Shares of RMB1 each		
– Domestic shares	**644,770**	664,310
– H shares	**214,940**	–
	859,710	664,310

Notes:

(a) In May 2016, 57,290,000 and 7,020,000 new ordinary shares were issued at RMB2.077 to 瀘州市基礎建設投資有限公司 (Luzhou Infrastructure Investment Co., Ltd.) and 瀘州老窖集團有限責任公司 (Luzhou Lao Jiao Group Co., Ltd.), respectively, of which, RMB64,310,000 and RMB69,270,000 were credited as fully paid-up share capital of the Company and capital reserve of the Company, respectively.

(b) On 31 March 2017, 195,400,000 of new ordinary H shares of RMB1 each of the Company were issued at a price of HK$2.30 (equivalent to RMB2.04) each, together with the then 19,540,000 ordinary shares in issue (which were converted into as H shares), by way of global offering (the "Global Offering"). The proceeds of HK$220,095,000 (equivalent to RMB195,400,000) representing the nominal value of the new ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of approximately HK$229,325,000 (equivalent to approximately RMB203,595,000), before issuing expenses of RMB33,837,000, were credited to the Company's share premium.

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 Stock Exchange of Hong Kong Limited.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

Benefited from the policies of the People's Republic of China ("**China**" or the "**PRC**"), including new urbanisation, energy conservation and emission reduction strategy as well as pollution prevention and treatment, the construction scale and service scope of municipal water supply and wastewater treatment industries in China will be further expanded, promising vast market space for water supply enterprises and wastewater treatment enterprises to thrive.

According to relevant policies and statistics, we expect strong performance of main growth drivers for the municipal water supply industry in China. Firstly, China will see the greatest benefits arising from its progress of urbanisation to boost economic and social development. As estimated by the report issued by Frost & Sullivan, China's urbanisation rate will increase from 56.1% to 63.0% for the period from the year 2015 to the year 2020, which will bolster further growth of the municipal water supply industry. Secondly, the recent introduction of "Two-child Policy" is expected to drive further population growth, and the ever increasing per capita disposable income of urban households in China will make water fees more affordable to water users. Thirdly, major entry barriers, including government authorisation, stringent requirement for approval, demand for large amount of capital and strong regional barriers, will provide powerful guarantee for business growth of the municipal water supply industry in the area.

As for municipal wastewater treatment, growing awareness of environmental protection among the public will contribute to lasting development of the municipal wastewater treatment industry. Firstly, economic and social development as well as new urbanisation will push up the demand for wastewater treatment. It is expected that the discharge volume of municipal wastewater in Sichuan province will reach 3.3 billion tons and the wastewater treatment volume thereof will reach 3.0 billion tons by 2020, representing a compound annual growth rate of 8.0%. Secondly, as a service procured by government, municipal wastewater treatment is with relatively high entry barriers and subject significantly to governmental guidance. Besides, environmental regulations and legislation and relevant incentive policies are expected to bring about larger room of development for wastewater treatment, and help attract approximately RMB2 trillion investments in the industry during the next five years, which will further spur the development of the municipal wastewater treatment industry in China. Thirdly, with the growing awareness of environmental protection among the public, the PRC government will probably continue to propose higher requirements on the quality of discharged wastewater, and local governments may step up investments in solving problems caused by water pollution. Fourthly, as the PRC government imposes increasingly strict regulations on wastewater discharge by enterprises, especially industrial enterprises, a model that a third party is commissioned to operate the treatment of industrial wastewater is on the rise, which will become a new and relative large profit growth point for enterprises dedicated to municipal wastewater treatment.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In recent years, the Chinese government has implemented a series of policies to support and stimulate the development of municipal water services. In April 2015, the State Council of China published the action plan for the prevention of water pollution. According to the report issued by Frost & Sullivan, the plan will guide the government to make significant investment in municipal water supply and sewage treatment businesses and take major actions as well. In March 2016, the Chinese government published the 13th Five-Year Plan Outline for National Economy and Social Development, stressing the need to strengthen the protection of water safety, speed up the improvement of the ecological environment, intensify the comprehensive environmental governance and strengthen the construction of environmental infrastructure. The government also asked that "the construction and reformation of township sewage treatment facilities and pipe network should be sped up, the harmless and resourceful treatment of sludge should be promoted, the facilities for life sewage and rubbish treatment should be installed in all townships and meet the standard for steady operation and the centralized treatment rate for cities and townships should reach 95% and 85% respectively." In December 2016, the Chinese government published the 13th Five-Year Construction Plan for National Township Sewage Treatment and Reclaimed Water Usage Facilities, stressing that during the 13th Five-Year, further preparation and planning should be made, a reasonable layout should be used and investment should be increased to realize the transformation of the construction of township sewage treatment facilities from "increase in scale" to "improvement in quality and effectiveness" and fully enhance the protection and service level of China's township sewage treatment facilities so that the public will see for themselves the improvement results of water environment. We believe that a series of national policies have brought new opportunities and provided a broader platform for the water service and environmental protection industries. In addition, the Chinese government has vigorously promoted the development of the Yangtze River economic zone, putting forward "the strategic positioning of committing to ecology being the priority and green development, putting the repairing of the Yangtze River ecological environment in the first place and promoting the synergetic development of upper, middle and lower reaches of the Yangtze River and the interactive cooperation of the East, Middle and West of China so as to construct a model belt, innovation and driving belt and collaborative development belt for China's ecologic culture construction." Luzhou is in the upper reach of Yangtze River. These policies will bring new economic growth opportunities to Luzhou area and stimulate the needs for municipal water services. We will also benefit from the economic development in Luzhou area and the further development of China's Southwest area.

Looking into the future, the Group will still uphold a corporate development strategy based on businesses operated in Luzhou area, as it persistently seeks investment opportunities to expand its businesses to other areas of China where the Group maintains competitive advantages, especially, areas in Sichuan, Chongqing, Yunnan and Guizhou. The Group will seize the opportunities from the tap water and environmental protection industries and acquire appropriate projects in line with its experience in public-private-partnership ("**PPP**") practices for the complementation of existing businesses, so as to enlarge its market share. The Group will also further raise the operational efficiency by constantly taking its technologies and project management to higher levels.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan province, principally engaged in tap water supply and wastewater treatment in Luzhou area. 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.

As at the end of the Reporting Period, the Group owned seven tap water plants and nine wastewater treatment plants, and the daily treatment capacity of relevant projects was approximately 591,500 tons in aggregate.

Our Tap Water Supply Services

As at the end of the Reporting Period, the Group owned seven water supply concession projects with a daily treatment capacity of approximately 330,500 tons in aggregate, representing an addition of one BOO project with a daily treatment capacity of approximately 50,000 tons compared with that as at 30 June 2016. The average utilisation of our tap water plants stood at 80.9%.

For the Reporting Period, our tap water sales volume was approximately 44.1 million tons, representing an increase of 14.8% as compared with approximately 38.4 million tons for the six months ended 30 June 2016. The increase in tap water sales volume led to an increase of revenue generated from sales of tap water from external customers by 20.5 %, from RMB81.2 million for the six months ended 30 June 2016 to RMB97.8 million for the Reporting Period.

Our Wastewater Treatment Services

As at the end of the Reporting Period, we owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 261,000 tons in aggregate.

As the area and population of cities served by us keep expanding, we recorded higher wastewater treatment volume, which enabled the revenue generated from wastewater treatment operating services to increase by 31.8% from RMB53.5 million for the six months ended 30 June 2016 to RMB70.5 million during the Reporting Period. The wastewater treatment volume increased from approximately 27.6 million tons for the six months ended 30 June 2016 to approximately 39.1 million tons for the Reporting Period, representing an increase of 41.7%.

(IV) FINANCIAL REVIEW

1. Analysis of Key Items in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

1.1 Revenue

Revenue of the Group decreased by 13.3% from RMB445.0 million for the six months ended 30 June 2016 to RMB385.8 million for the Reporting Period.

1.1.1 Tap water supply

1.1.1.1 Sales of tap water

Revenue of the Group generated from sales of tap water increased by 20.5% from RMB81.2 million for the six months ended 30 June 2016 to RMB97.8 million for the Reporting Period. Such increase was primarily due to a growth in the sales volume from approximately 38.4 million tons for the six months ended 30 June 2016 to approximately 44.1 million tons for the Reporting Period. Revenue generated from sales of tap water accounted for 18.2% and 25.3% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.1.2 Installation and maintenance services

Revenue of the Group generated from installation and maintenance services increased by 10.1% from RMB61.5 million for the six months ended 30 June 2016 to RMB67.7 million for the Reporting Period. Such increase was mainly due to an increase in installation projects for residential users we completed during the Reporting Period. Revenue generated from installation and maintenance service accounted for 13.8% and 17.6% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.1.3 Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure increased by 15.2% from RMB114.3 million for the six months ended 30 June 2016 to RMB131.7 million for Reporting Period. Such increase was mainly due to an increase in the amount of construction works of the pre-operational projects, such as Qiancao Supply Plant II, for the Reporting Period.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 31.8% from RMB53.5 million for the six months ended 30 June 2016 to RMB70.5 million for the Reporting Period. Such increase was primarily due to the increase in wastewater treatment capacity as we were entitled to a guaranteed minimum treatment tariff after we commenced trial operation upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant from July 2016. Our total treatment volume was 27.6 million tons and 39.1 million tons for the six months ended 30 June 2016 and 2017, respectively. Revenue generated from wastewater treatment operation accounted for 12.0% and 18.3% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.2.1 Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 75.4% from RMB10.2 million for the six months ended 30 June 2016 to RMB17.9 million for the Reporting Period. Such increase was mainly due to the increase in receivables under service concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Chengdong Treatment Plant and Chengnan Treatment Plant commencing from July 2016, following their trial operations.

1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure decreased by 99.8% from RMB124.3 million for the six months ended 30 June 2016 to RMB207,000 for the Reporting Period. Such decrease was mainly due to the decrease of the revenue from Chengdong Treatment Plant and Chengnan Treatment Plant because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016.

1.2 Cost of sales and services

The Group's cost of sales and services decreased by 19.5% from RMB344.7 million for the six months ended 30 June 2016 to RMB277.5 million for the Reporting Period.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

The Group's cost of sales and services associated with sales of tap water increased by 40.6% from RMB65.1 million for the six months ended 30 June 2016 to RMB91.6 million for the Reporting Period. Such increase was primarily due to the significant increase in maintenance expenses during the Reporting Period. Cost of sales and services from tap water supply operations accounted for 18.9% and 33.0% of our total cost of sales and services for the six months ended 30 June 2016 and 2017, respectively.

1.2.1.2 Installation and maintenance services

The Group's cost of sales and services associated with installation and maintenance services increased by 39.4% from RMB13.1 million for the six months ended 30 June 2016 to RMB18.2 million for the Reporting Period. Such increase was mainly due to the increase in the volume of installation and maintenance work we undertook.

1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services from construction and upgrade on tap water supply infrastructure increased by 15.2% from RMB114.1 million for the six months ended 30 June 2016 to RMB131.4 million for the Reporting Period. Such increase was mainly due to an increase in the amount of construction works of the pre-operational projects during the Reporting Period, such as Qiancao Supply Plant II, for the Reporting Period.

1.2.2 Wastewater treatment

1.2.2.1 Operating service

The Group's cost of sales and services from wastewater treatment operating services increased by 27.7% from RMB28.2 million for the six months ended 30 June 2016 to RMB36.0 million for the Reporting Period. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment plant and Chengnan Treatment Plant from July 2016. Cost of sales and services from wastewater treatment operating services accounted for 8.2% and 13.0% of our total cost of sales and services for the six months ended 30 June 2016 and 2017, respectively.

1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The Group's cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 99.8% from RMB124.1 for the six months ended 30 June 2016 to RMB207,000 for the Reporting Period. The decrease was mainly because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016.

1.3 Gross profit and gross profit margin

As a result of above, our gross profit slightly increased from RMB100.3 million for the six months ended 30 June 2016 to RMB108.3 million for the Reporting Period. Gross profit margin increased from 22.5% for the six months ended 30 June 2016 to 28.1% for the Reporting Period.

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 61.4% from RMB16.0 million for the six months ended 30 June 2016 to RMB6.2 million for the Reporting Period. The corresponding gross profit margin decreased from 19.7% for the six months ended 30 June 2016 to 6.3% for the Reporting Period, primarily due to an increase in maintenance expenses and staff costs of Nanjiao Supply Plant II while its production has not yet reached its full capacity.

1.3.1.2 Installation and maintenance services

The gross profit of the Group for installation and maintenance services increased by 2.2% from RMB48.5 million for the six months ended 30 June 2016 to RMB49.5 million for the Reporting Period. The corresponding gross profit margin remained stable at 78.8% and 73.1% for the six months ended 30 June 2016 and 2017, respectively.

1.3.1.3 Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure remained stable at RMB229,000 and RMB274,000 for the six months ended 30 June 2016 and 2017, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II and Nanjiao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% and 0.2% for the six months ended 30 June 2016 and 2017, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services increased by 36.4% from RMB25.2 million for the six months ended 30 June 2016 to RMB34.4 million for the Reporting Period. The corresponding gross profit margin increased from 47.2% for the six months ended 30 June 2016 to 48.8% for the Reporting Period. The increase in gross profit margin was mainly because Chengdong Treatment Plant and Chengnan Treatment Plant started trial operation in July 2016 and had not yet reached their full capacity for the Reporting Period while they are entitled to guaranteed minimum treatment tariff.

1.3.2.2 Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure decreased from RMB136,000 for the six months ended 30 June 2016 to nil for the Reporting Period. Such decrease was mainly due to the construction of Chengdong Treatment Plant and Chengnan Treatment Plant which had been completed in June 2016. The construction of wastewater treatment infrastructure recorded a gross profit margin of 0% during the Reporting Period.

1.4 Other income, expenses, gains and losses, net

The Group's other income, expenses, gains and losses, net decreased significantly from RMB16.1 million for the six months ended 30 June 2016 to RMB7.4 million for the Reporting Period.

While there was an increase in VAT refund pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015 No. 78) in connection with our wastewater treatment operations, the decrease was recorded in other income, expenses, gains and losses (net), which was mainly because there was no gains on disposal of properties (for the six months ended 30 June 2016: RMB3.4 million) and the Group recorded a net foreign exchange losses of RMB7.6 million (included in our tap water supply segment), mainly arising from retranslation of our Hong Kong dollar denominated listing proceeds into Renminbi at the end of the Reporting Period as a result of depreciation of Hong Kong dollar against Renminbi (for the six months ended 30 June 2016: Nil) for the Reporting Period.

1.5 Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 48.7% from RMB4.5 million for the six months ended 30 June 2016 to RMB6.7 million for the Reporting Period. Such increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force, and the increase in promotion and advertisements expenses, while to a lesser extent due to an increase in the salary of our employees.

1.6 Administrative Expenses

The Group's administrative expenses increased by 40.1% from RMB19.0 million for the six months ended 30 June 2016 to RMB26.5 million for the Reporting Period. The increase was mainly due to (i) an increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and an increase in the salary of our employees to a lesser extent; and (ii) the increase in various office expenses.

1.7 Listing Expenses

The Group's listing expenses increased from RMB1.1 million for the six months ended 30 June 2016 to RMB7.7 million for the Reporting Period. We completed our global offering in March 2017 and incurred most of our listing expenses during the Reporting Period.

1.8 Finance Costs

The Group's finance costs increased by 83.6% from RMB6.6 million for the six months ended 30 June 2016 to RMB12.2 million for the Reporting Period, primarily due to the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant since July 2016.

1.9 Income Tax Expense

The Group's income tax expenses decreased from RMB13.0 million for the six months ended 30 June 2016 to RMB9.5 million for the Reporting Period that is in line with the decrease in profit before tax. The effective tax rate of the Group both remained stable at 15.3% for the six months ended 30 June 2016 and 2017, respectively.

1.10 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group decreased by 26.6% from RMB72.3 million for the six months ended 30 June 2016 to RMB53.1 million for the Reporting Period. Our profit after tax margin decreased from 16.2% for the six months ended 30 June 2016 to 13.8% for the Reporting Period.

2. Analysis of Key Items of Condensed Consolidated Statement of Financial Position

2.1 Property, Plant and Equipment

Our property, plant and equipment was RMB37.0 million and RMB37.8 million as at 31 December 2016 and the end of the Reporting Period, respectively, which consisted primarily of office buildings, machinery and office equipment, office equipment and fixtures and vehicles. Apart from the deprecation, property, plant and equipment slightly increased from RMB37.0 million as of 31 December 2016 to RMB37.8 million as of the end of the Reporting Period, mainly due to additions of non-infrastructure related machinery and office equipment.

2.2 *Intangible Assets*

Intangible assets of the Group were RMB1,022.1 million and RMB1,133.7 million as at 31 December 2016 and the end of the Reporting Period, respectively. Such increase was mainly due to the construction and upgrade work we completed for our construction and upgrade projects, such as Qiancao Supply Plant II.

2.3 *Receivables under Service Concession Arrangements*

The receivables under service concession arrangements of the Group were RMB773.2 million and RMB767.6 million as at 31 December 2016 and the end of the Reporting Period, respectively. Such decrease was mainly due to settlement of the receivables.

2.4 *Inventories*

Our inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to RMB17.4 million and RMB26.2 million, as at 31 December 2016 and 2017, respectively. Such increase was mainly because the Group began overall district water supply and therefore the business of installation of water meters expanded, and the Group purchased a large amount of far passing water gauge and pipe material.

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

	Six months ended 30 June	
	2017	2016
Average inventory turnover days [(1)]	**27**	29

Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number days in the period.

We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days decreased from 29 days for the six months ended 30 June 2016 to 27 days for the Reporting Period, such decrease was primarily as a result of our enhanced internal control over inventories.

2.5 *Trade Receivables*

Our trade receivables were RMB83.7 million and RMB120.5 million as at 31 December 2016 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2017	2016
Average trade receivables turnover days [(1)]	**73**	79

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number of days in the period.

We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water and installation and maintenance services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days decreased from 79 days for the six months ended 30 June 2016 to 73 days for the Reporting Period, such decrease was primarily as a result of our enhanced management policies on receivables collection.

2.6 Trade Payables

Our trade payables were RMB10.4 million and RMB11.6 million as at 31 December 2016 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2017	2016
Average trade payables turnover days (1)	**14**	15

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation and maintenance services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days remained stable for the six months ended 30 June 2016 and 2017.

2.7 Trade and Construction Payables

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	Six months ended 30 June	
	2017	2016
Average trade payables and construction payables turnover days (1)	**110**	66

(1) *Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.*

Our average turnover days of trade and construction payables increased from 66 days for the six months ended 30 June 2016 to 110 days for the Reporting Period. Such increase was primarily because of our increased payables incurred in relation to various tap water supply projects, such as Qiancao Supply Plant II.

2.8 Deferred Revenue

Our deferred revenue was RMB128.6 million and RMB125.2 million as at 31 December 2016 and the end of Reporting Period, respectively. The slight decrease in deferred revenue was mainly due to the release of the deferred revenue recognised in profit or loss.

2.9 Advance from Customers and Other Payables

Our advance from customers and other payables decreased from RMB319.9 million as at 31 December 2016 to RMB290.2 million at the end of the Reporting Period, which was primarily attributable to decrease in construction payables.

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 maximising the return to shareholders of the Company (the "**Shareholder**") through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Reporting Period. The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

As at the end of Reporting Period, the cash and cash equivalents of the Group amounted to RMB720.0 million (31 December 2016: RMB526.6 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to RMB603.4 million (31 December 2016: RMB685.3 million), including bank and other borrowings. Approximately 77.5% of our bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was -6.5% (31 December 2016: 11.2%).

III. OTHER INFORMATION

(I) Initial Public Offering

The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 31 March 2017 (the "**Listing Date**"), and 214,940,000 H shares of the Company with par value of RMB1.00 each had been issued at the price of HK$2.30 per share with net proceeds received from the issuance of approximately HK$395.1 million. Upon successful completion of the initial public offering ("**IPO**") of the Company's H shares on the Stock Exchange on the Listing Date, the Company had issued 859,710,000 shares in total, of which 644,770,000 were domestic shares and 214,940,000 were H shares. Some of proceeds from the IPO had been used as disclosed in the prospectus of the Company dated 21 March 2017. As at the end of the Reporting Period, HK$61.8 million of the proceeds had been used by the Group for uses as disclosed in the prospectus and HK$349.6 million of the proceeds had not yet been used.

(II) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 780 employees (31 December 2016: 787 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB54.5 million (six months ended 30 June 2016: RMB41.2 million). The Group will endeavour to keep the level of employees' remuneration in line with industry practices and prevailing market conditions. And, such remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, will be determined by their performance. The Group also provides external and internal training programs for the 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.

(III) Foreign Exchange Risks

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group has a borrowing from The World Bank that is US$ denominated and unutilised listing proceeds denominated in Hong Kong dollar and recognised net foreign exchange losses of RMB7.6 million in the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

(IV) Interim Dividends

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

(V) Contingent Liabilities

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

(VI) Major Acquisitions and Disposals

During the Reporting Period, the Group did not have any major acquisitions and disposals of subsidiaries, associates and joint ventures.

(VII) Events After the Reporting Period

On 16 August 2017, the Company initiated the project of the construction of Naxi Supply Plant (Phase I).

(VIII) Audit Committee

The audit committee of the Company (the "**Audit Committee**") consists of two independent non-executive directors, namely Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming'an and a non-executive director Mr. Yang Ronggui, with Mr. Cheng Hok Kai, Frederick serving as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company's website and the website of the Stock Exchange.

The Audit Committee has reviewed the unaudited condensed consolidated interim 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.

(IX) Nomination and Remuneration Committee

The nomination and remuneration committee of the Company (the "**Nomination and Remuneration Committee**") consists of two independent non-executive directors, namely Mr. Gu Ming'an and Mr. Cheng Hok Kai, Frederick, and an executive director Mr. Zhang Qi, with Mr. Gu Ming'an serving as the chairman of the Nomination and Remuneration Committee. The primary responsibilities of the Nomination and Remuneration Committee are to make recommendations to the Board on the appointment and removal of the directors and senior management of the Company, establish and review the policy and structure of the remuneration for the directors and senior management of the Company and make recommendations on employee benefit arrangement. The terms of reference of the Nomination and Remuneration Committee are available for inspection on the Company's website and the website of the Stock Exchange.

(X) Strategy Committee

The strategy committee of the Company (the "**Strategy Committee**") consists of a non-executive director Mr. Chen Bing, an executive director Mr. Zhang Qi and an independent non-executive director Mr. Lin Bing, with Mr. Chen Bing serving as the chairman of the Strategy Committee. The primary responsibilities of 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 Stock Exchange.

(XI) Change in Directors' Information

During the period from Listing Date to the end of Reporting Period, there was no change in our directors' information.

(XII) Compliance With the Corporate Governance Code

The Group 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 Group and balancing the interests of the Shareholders, customers and employees of the Group.

During the period from the Listing Date to the end of Reporting Period, the Company has complied with all code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the code of conduct regarding securities transactions by the directors and the Company's supervisors. The Company has made specific inquiries to all the directors and supervisors of the Company, and all the directors and supervisors of the Company have confirmed that they have fully complied with the requirements set out in the Model Code during the period from the Listing Date to the end of Reporting Period.

(XIV) 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.

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

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

(XVI) 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 interim results announcement.

IV. REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board, while the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2016 and the relevant explanatory notes have not been reviewed. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 have also been reviewed by the Audit Committee.

V. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The interim report of the Group for the six months ended 30 June 2017 will be dispatched to the Shareholders and released on the websites of the 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
28 August 2017

As at the date of this announcement, the Board consists of (i) three executive directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Mr. Wang Junhua; (ii) three non-executive directors, namely Mr. Chen Bing, Mr. Yang Ronggui and Ms. Xu Yan; and (iii) three independent non-executive directors, namely Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick.

* *For identification purposes only*