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

瀘州市興瀘水務(集團)股份有限公司

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

(Stock code: 2281)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS FOR 2017

– Revenue amounted to approximately RMB1,081.7 million, representing an increase of 29.4% from the year ended 31 December 2016.

– Profit for the year amounted to approximately RMB142.7 million, representing an increase of approximately 1.3% from the year ended 31 December 2016.

– Profit attributable to owners of the Company amounted to approximately RMB131.3 million, representing an increase of approximately 3.7% from the year ended 31 December 2016.

– Basic earnings per share amounted to approximately RMB0.16, representing a decrease of approximately 20.0% from the year ended 31 December 2016.

– The Board proposed the payment of final dividends of RMB0.08 per share (tax inclusive) for the year ended 31 December 2017.

The board (the "**Board**") of directors (the "**Directors**") of Luzhou Xinglu Water (Group) Co., Ltd.* (the "**Company**" or "**we**") is pleased to announce the consolidated annual results and financial position of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**") together with comparative figures as follows:

I. FINANCIAL INFORMATION OF THE GROUP

(a) Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Year ended 31 December	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
Revenue	3, 4	**1,081,744**	836,191
Cost of sales and services		**(828,250)**	(621,582)
Gross profit		**253,494**	214,609
Other income, expenses, gains and losses, net	5	**14,744**	33,397
Distribution and selling expenses		**(12,533)**	(9,973)
Administrative expenses		**(57,901)**	(46,323)
Listing expenses		**(7,722)**	(1,798)
Finance costs	6	**(26,913)**	(24,100)
Profit before tax	8	**163,169**	165,812
Income tax expense	7	**(20,480)**	(25,016)
Profit for the year		**142,689**	140,796
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**131,298**	126,647
– Non-controlling interests		**11,391**	14,149
		142,689	140,796
EARNINGS PER SHARE *(RMB)*	10		
– Basic		**0.16**	0.20
– Diluted		**0.16**	N/A

(b) Consolidated Statement of Financial Position

		At 31 December	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
Non-current Assets			
Property, plant and equipment		**37,320**	37,002
Prepaid lease payments		**77,778**	78,141
Investment properties		**13,071**	13,359
Intangible assets	11	**1,461,240**	1,022,144
Prepayments for prepaid lease payments		**4,000**	4,000
Receivables under service concession arrangements	11	**736,408**	761,901
Available-for-sale investments		**53,630**	53,630
Deferred tax assets		**9,007**	5,104
		2,392,454	1,975,281
Current Assets			
Inventories		**28,016**	17,395
Receivables under service concession arrangements	11	**14,493**	11,294
Trade receivables	12	**100,429**	83,717
Prepaid lease payments		**1,764**	1,637
Amounts due from customers for contract work		**10,464**	8,470
Prepayments and other receivables		**17,121**	29,774
Restricted bank balance		**–**	5,000
Bank balances and cash		**700,075**	526,569
		872,362	683,856
Current Liabilities			
Trade payables	13	**21,752**	10,442
Advances from customers and other payables		**431,450**	319,915
Tax liabilities		**12,723**	21,205
Borrowings		**289,574**	319,674
Provisions		**4,902**	14,214
		760,401	685,450
Net Current Assets (Liabilities)		**111,961**	(1,594)
Total Assets less Current Liabilities		**2,504,415**	1,973,687

		At 31 December	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
Capital and Reserves			
Share capital	14	**859,710**	664,310
Share premium and reserves		**926,530**	625,474
Equity attributable to owners of the Company		**1,786,240**	1,289,784
Non-controlling interests		**91,676**	81,489
Total Equity		**1,877,916**	1,371,273
Non-current Liabilities			
Deferred tax liabilities		**12,615**	11,622
Borrowings		**313,185**	365,609
Deferred revenue		**145,036**	128,639
Provisions		**155,663**	96,544
		626,499	602,414
		2,504,415	1,973,687

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (the "**IAS**") 1 Presentation of Financial Report 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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effect for the current year

The Group has applied the following amendments to IFRSs issued by the IASB for the first time in the current year:

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*

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers and the Related Amendments*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

3. REVENUE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Tap water supply		
– Tap water	**207,391**	179,353
– Installation and maintenance services	**215,768**	136,132
– Construction and upgrade services of tap water supply infrastructure	**452,156**	214,239
	875,315	529,724
Wastewater treatment		
– Operating services	**151,746**	125,885
– Interest income on receivables under service concession arrangements	**35,662**	27,158
– Construction and upgrade services of wastewater treatment infrastructure	**19,021**	153,424
	206,429	306,467
	1,081,744	836,191

4. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("**CODM**"), during the year, 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 services and related construction services

The tap water supply segment includes the Company and its certain 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, 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:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**207,391**	179,353
– Installation and maintenance services	**215,768**	136,132
– Construction and upgrade services of tap water supply infrastructure	**452,156**	214,239
– Inter-segment sales*		
– Tap water	**408**	644
Wastewater treatment		
– From external customers		
– Operating service	**151,746**	125,885
– Interest income on receivables under service concession arrangements	**35,662**	27,158
– Construction and upgrade services of wastewater treatment infrastructure	**19,021**	153,424
Elimination*	**(408)**	(644)
Revenue	**1,081,744**	836,191
Segment results		
– Tap water supply**	**73,059**	81,998
– Wastewater treatment	**77,352**	60,596
Unallocated expenses	**(7,722)**	(1,798)
Profit after tax	**142,689**	140,796

* Inter-segment sales for the years ended 31 December 2016 and 2017 were conducted at terms mutually agreed among the companies comprising the Group.

** Based on the CODM's consideration, corporate expenses such as auditors' remuneration, directors' emoluments, other legal and professional fees are allocated to tap water supply segment.

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 operating and reportable segment:

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Segment assets		
– Tap water supply	**2,114,395**	1,512,283
– Wastewater treatment	**1,150,461**	1,127,716
Unallocated corporate assets	**–**	19,178
Elimination	**(40)**	(40)
Consolidated total assets	**3,264,816**	2,659,137
Segment liabilities		
– Tap water supply	**881,958**	699,710
– Wastewater treatment	**504,982**	579,998
Unallocated corporate liabilities	**–**	8,196
Elimination	**(40)**	(40)
Consolidated total liabilities	**1,386,900**	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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Bank interest income	**2,342**	1,878
Deferred revenue in respect of government grants recognised	**7,233**	6,488
Value-added-tax ("**VAT**") refunds *(Note (a))*	**17,815**	13,821
Commission income on garbage fees collected for governmental bureau	**262**	1,335
Late charges on tap water users	**2,422**	2,320
Rental income less outgoings	**864**	765
Gains on disposal of property, plant and equipment, net	**17**	3,830
Gains on disposal of prepaid lease payments	**–**	654
Gains on disposal of investment properties	**–**	1,746
(Impairment losses) reversal of impairment losses on trade and other receivables	**(327)**	58
Sewage charges	**(116)**	–
Foreign exchange losses, net	**(17,581)**	(478)
Donations	**(264)**	(146)
Others *(Note (b))*	**2,077**	1,126
	14,744	33,397

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.

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

6. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest on bank borrowings	**23,231**	26,578
Interest on other borrowings	**2,438**	2,943
Unwinding of the discount	**5,427**	3,605
	31,096	33,126
Less: Amount capitalised in qualified assets	**(4,183)**	(9,026)
	26,913	24,100

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current year	**24,959**	24,490
Overprovision in prior year	**(1,569)**	–
Current tax	**23,390**	24,490
Deferred tax	**(2,910)**	526
Total income tax recognised in profit or loss	**20,480**	25,016

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT law, the tax rate of the subsidiaries is 25% for both years, except for the following group entities:

Name of company	Applicable EIT rate	Financial years
The Company*	15%	Years ended 31 December 2016 and 2017
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. ("**Beijiao Water**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. ("**Hejiang Water**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd. ("**Jiangnan Water**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. ("**Naxi Water**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Nanjiao Water Co., Ltd. ("**Nanjiao Water**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Sitong Tap Water Engineering Co., Ltd. ("**Sitong Engineering**")*	15%	Years ended 31 December 2016 and 2017
Luzhou Xinglu Wastewater Treatment Co., Ltd. ("**Xinglu Wastewater Treatment**")*/**	nil or 15%	Years ended 31 December 2016 and 2017
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. ("**Sitong Design**")***	15% 10%	Year ended 31 December 2017 Year ended 31 December 2016

* 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. During the years ended 31 December 2016 and 2017, 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 for the years ended 31 December 2016 and 2017 accounted for more than 70% of their total revenue in these years, and therefore enjoy the preferential EIT rate of 15%.

** According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant ("**Chengdong**") and Chengnan Wastewater Treatment Plant ("**Chengnan**"), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rates of Chengdong and Chengnan are nil for the years ended 31 December 2016 and 2017. The EIT paid of Chengdong and Chengnan for the year ended 31 December 2016 have been offset against income tax expense of other plants of Xinglu Wastewater Treatment for the year ended 31 December 2017.

*** Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the year ended 31 December 2016, small-scale and low profit margin companies with annual taxable income of no more than RMB200,000 shall be subject to a business income tax rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfied the criteria of a small-scale and low profit margin company, it was eligible for the preferential effective tax rate of 10% in 2016.

As annual taxable income for the year ended 31 December 2017 of Sitong Design exceeds RMB200,000, Sitong Design doesn't satisfy the Amendment of the State Administration of Taxation 2015 No. 61. 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. During the year ended 31 December 2017, Sitong Design, which is located in the western region, is engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of its major business for the year ended 31 December 2017 accounted for more than 70% of its total revenue in this year, and therefore enjoys the preferential EIT rate of 15%.

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**5,160**	6,627
Depreciation of investment properties	**449**	465
Amortisation of intangible assets	**43,081**	26,809
Amortisation of prepaid lease payments	**1,701**	1,628
Total depreciation and amortisation	**50,391**	35,529
Auditors' remuneration	**2,100**	1,180
Write-down of inventories	**456**	–
Staff costs (including the Directors' and supervisors' remuneration):		
– Salaries, wages and welfare	**98,650**	80,105
– Retirement benefit schemes contributions	**18,024**	15,734
Total staff costs	**116,674**	95,839
and after crediting:		
Gross rental income from investment properties	**1,323**	1,069
Less: Direct operating expenses incurred for investment properties that generated rental income	**(459)**	(304)
	864	765

9. DIVIDENDS

Subsequent to the end of the Reporting Period, a final dividend of RMB68,776,800 or RMB0.08 per share (tax inclusive) in respect of the year ended 31 December 2017 (2016: Nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

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

	Year ended 31 December	
	2017	2016
Profit for the year attributable to the owners of the Company *(RMB'000)*	**131,298**	126,647
Weighted average number of ordinary shares issued *('000)*	**812,065**	641,116

During the year ended 31 December 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 14(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 year ended 31 December 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 representing operating concession in respect of tap water supply and wastewater treatment service are as follows:

	RMB'000
Cost	
At 1 January 2016	1,173,146
Additions	367,663
Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed	(389,602)
At 31 December 2016	1,151,207
Additions	482,177
At 31 December 2017	**1,633,384**
Accumulated amortisation	
At 1 January 2016	(102,254)
Amortisation for the year	(26,809)
At 31 December 2016	(129,063)
Amortisation for the year	(43,081)
At 31 December 2017	**(172,144)**
Carrying amounts	
At 31 December 2017	**1,461,240**
At 31 December 2016	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 31 December 2017, intangible assets recognised under service concession arrangements of RMB323.0 million (2016: RMB239.4 million) 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 2017 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 12.3% to 16.5% (2016: 13.7% to 16.8%). 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. Based on the above value in use calculations and considering that the assumptions used in the calculation are still applicable as at 31 December 2017, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2016 and 2017. The Directors also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

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 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current portion	**736,408**	761,901
Current portion	**14,493**	11,294
	750,901	773,195
Expected collection schedule is analysed as follows:		
Within one year	**14,493**	11,294
More than one year, but not exceeding two years	**16,590**	14,493
More than two years, but not exceeding three years	**18,079**	16,821
More than three years, but not exceeding four years	**18,904**	18,325
More than four years, but not exceeding five years	**19,770**	19,163
Over five years	**663,065**	693,099
	750,901	773,195

The effective interest rates for the above financial assets fall within the range from 3.51% to 6.00% (2016: 3.51% to 6.00%) per annum.

Given (i) the counterparties in the Group's receivables under service concession 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 concession arrangements during the year. 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 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**102,033**	85,135
Less: allowance for doubtful debts	**(1,604)**	(1,418)
	100,429	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 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**78,613**	50,661
Between 4 months and 6 months	**17,300**	4,133
Between 7 months and 12 months	**1,042**	2,609
Over 1 year	**3,474**	26,314
	100,429	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 which are past due but not impaired:

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Overdue by:		
Within 3 months	**19,656**	6,076
Between 4 months and 6 months	**1,042**	2,609
Over 1 year	**3,474**	26,314
	24,172	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 recoverable proceeds. 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 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**18,694**	7,599
Between 7 months and 12 months	**811**	677
Over 1 year	**2,247**	2,166
	21,752	10,442

The credit period on purchases are generally within 6 months.

14. SHARE CAPITAL

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**664,310**	600,000
Capital injections *(Note (a))*	**–**	64,310
Issue of new ordinary shares *(Note (b))*	**195,400**	–
At end of the year	**859,710**	664,310
	'000	*'000*
Shares of RMB1 each		
– Domestic shares *(Note (b))*	**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 approximately RMB2.077 each to Luzhou City Infrastructure Investment Co., Ltd. (瀘州市基礎建設投資有限公司) and Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司) 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 by way of global offering (the "**Global Offering**") and 19,540,000 domestic shares were converted into H shares. The proceeds of HK$220,095,000 (equivalent to approximately 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 capital reserve.

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.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Industry Overview

Looking into the 13th Five Year Plan period, water consumption is expected to grow year on year as China's urbanisation picks up steam. China now has 661 cities and over 2,000 water supply plants, with the asset value totalling RMB500 billion. Tap water supply companies in each city have limited supply capacity, and their market shares are limited to local water demands. Regional businesses of these water supply companies are operated on decentralisation basis. Under such backdrop, water investment companies are open to plenty of opportunities for strategic merger and acquisition during the 13th Five Year Plan period. In addition, the Ministry of Environmental Protection of the PRC plans to build 677 wastewater treatment plants during the 13th Five Year Plan period, due to which, funds of RMB300 billion will flow into construction of wastewater treatment facilities. Given these factors, China is expected to see tremendous potential demands in the water supply and treatment market, and the water industry is expected to have a promising outlook with greater importance.

As the economy develops rapidly, and the urbanisation is promoted, national demands for water supply and drainage continue to grow, and there is an urgent need to address pollution issues. Judging from its scale and growth rate, the water supply segment is now in the mature development stage; the wastewater treatment segment is now in the fast growth stage, while the reclaimed water utilisation segment is still in the introduction stage. Water recycling is playing a greater role in easing supply and demand tensions, which provides the reclaimed water segment with tremendous development opportunities. In a bid to ensure sustainable development, both the state and local governments roll out policies about development objectives, industry regulation, financing ways, tax incentives and technology innovation, which create a favourable environment for the development of the industry.

Furthermore, the 28th meeting of the Standing Committee of the 12th National People's Congress held on 27 June 2017 completed the second revision of "Decision on Amending the Law of the People's Republic of China on Water Pollution Prevention and Control" (referred to as the "**New Law**"), stipulating that the New Law has taken effect on 1 January 2018. The New Law has a stricter supervision standard and sets rigid rules on both companies and regulatory departments. It is imperative for water companies with operating projects to promote optimisation and upgrade. There is a great market for improving and upgrading obsolete facilities and equipment.

While the integrated management of water resource and the concept of sustainable utilisation are promoted, there is a great leeway for water price to improve. It is expected that the government pricing system will shift to the market-oriented pricing system, and development plans for the water industry during the 13th Five Year Plan period will include diversity of investors, further development of market-oriented capital operation, urban-rural integration and regional coordination of water supply, regional consolidation of water resources and intensive utilisation of regional infrastructure, application of geographic information system (GIS), global positioning system (GPS) and remote sensing RS integration, information-based operation of water affairs and resource sharing.

(II) Development Strategy and Outlook

In 2018, the Company will prioritise the ideology-driven transformation and development as the core task, and will follow the guideline of "work style reform, efficiency improvement, execution strengthening and quality assurance". It will align its development and future plans with external environment changes and industry characteristics, and optimise the Company's strategies, water supply and drainage segments, business structure and financing channels. While actively participating in the construction and development of water resources industry, the Company will adopt the approach that "leverage the key segment to build a well-structured network", and gradually develop other regional markets of water supply and drainage, thus realising cross-region development and diversified business operation.

The Company will build a business pattern comprising "one staple, two supplements and three sidelines". Focusing on the water supply and drainage, the Company will seek vertical and horizontal development in the industry chain and improve its market expansion capabilities in water supply and drainage design, construction and operation of piping network, measurement technology, sludge treatment and technology consultation on water supply and drainage. While vigorously promoting the construction of smart enterprise, it will grow the supplements and sidelines into stronger segments.

The Company will innovate on its management style, control cost by leveraging technology innovation and explore new core technologies of the water industry relentlessly. It will collaborate with research teams of universities to initiate projects on water environment treatment, sludge treatment and garbage disposal. By doing so, the Company will cultivate its new core competitiveness, which will be conducive to the sustainable development of the Company and help the Company to grow into nationally leading and integrated water service provider with reasonable structure, efficient management and standardised operation.

(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, we operated eight tap water plants with a total supply capacity of approximately 425,500 tons per day and nine wastewater treatment plants with a total treatment capacity of 261,000 tons per day.

Tap Water Business

As at the end of the Reporting Period, the Group owned eight tap water plants with a daily supply capacity of approximately 425,500 tons in aggregate, representing an addition of two plants and approximately 145,000 tons of daily supply capacity in aggregate from that as at 31 December 2016. The average utilisation of tap water plants of the Group during the Reporting Period stood at 84.2%. Benefiting from population and economic growth of Luzhou, total sales of water increased by 15.3% from approximately 82.4 million tons for the year ended 31 December 2016 to approximately 95.0 million tons for the Reporting Period. Total number of end users of tap water increased from 262,730 as at 31 December 2016 to 335,703 as of the end of the Reporting Period. Qiancao Supply Plant II with designed capacity of 95,000 tons per day has been in trial operation in December 2017.

Wastewater Treatment Project

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. The average load rate of wastewater treatment plants stood at 63.3% during the Reporting Period. Wastewater treatment capacity increased by 23.8% from approximately 48.7 million tons for the year ended 31 December 2016 to approximately 60.3 million tons for the Reporting Period.

(IV) Financial Review

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

1.1 Revenue

Revenue of the Group increased by 29.4% from RMB836.2 million for the year ended 31 December 2016 to RMB1,081.7 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 15.6% from RMB179.4 million for the year ended 31 December 2016 to RMB207.4 million for the Reporting Period. Such increase was primarily due to a growth in the sales volume from approximately 82.4 million tons for the year ended 31 December 2016 to approximately 95.0 million tons for the Reporting Period. Revenue generated from sales of tap water accounted for 21.4% and 19.2% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

1.1.1.2 Installation and maintenance services

Revenue of the Group generated from installation and maintenance services increased by 58.5% from RMB136.1 million for the year ended 31 December 2016 to RMB215.8 million for the Reporting Period. Such increase was mainly due to the increase in installation projects for residential users we completed during the Reporting Period. Revenue generated from installation and maintenance service accounted for 16.3% and 19.9% of our total revenue for the years ended 31 December 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 111.1% from RMB214.2 million for the year ended 31 December 2016 to RMB452.2 million for the Reporting Period. Such increase was mainly due to the increase in the amount of upgrade works for Qiancao Supply Plant II and the operational projects of water supply pipeline network 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 20.5% from RMB125.9 million for the year ended 31 December 2016 to RMB151.7 million for the Reporting Period. Such increase was primarily due to the increase in the Group's wastewater treatment capacity as the Company was entitled to a guaranteed minimum treatment tariff after trial operation commenced upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, both of which maintained formal operation during 2017. The total treatment volume was 48.7 million tons and 60.3 million tons for the years ended 31 December 2016 and 2017, respectively. Revenue generated from wastewater treatment operation accounted for 15.1% and 14.0% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

1.1.2.2 Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 31.3% from RMB27.2 million for the year ended 31 December 2016 to RMB35.7 million for the Reporting Period. Such increase was mainly due to the improvement in wastewater treatment capacity and the entitlement to a guaranteed minimum treatment tariff after trial operation commenced upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, both of which maintained formal operation during 2017.

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 87.6% from RMB153.4 million for the year ended 31 December 2016 to RMB19.0 million for the Reporting Period. Such decrease was mainly due to the decrease of the revenue from construction and upgrade of 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 increased by 33.2% from RMB621.6 million for the year ended 31 December 2016 to RMB828.3 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 24.9% from RMB146.5 million for the year ended 31 December 2016 to RMB182.9 million for the Reporting Period. Such increase was primarily due to the significant increase in maintenance expenses of water supply plants during the

Reporting Period. Cost of sales and services from tap water supply operations accounted for 23.6% and 22.1% of our total cost of sales and services for the years ended 31 December 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 129.2% from RMB36.5 million for the year ended 31 December 2016 to RMB83.7 million for the Reporting Period. Such increase was mainly due to the increase in the volume of installation and maintenance work we undertook and the rising material and equipment costs.

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 111.1% from RMB213.7 million for the year ended 31 December 2016 to RMB451.2 million for the Reporting Period. Such increase was mainly due to the increase in the amount of upgrade works for Qiancao Supply Plant II and the operational projects of water supply pipeline network during 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 RMB71.6 million for the year ended 31 December 2016 to RMB91.5 million for the Reporting Period. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016 upon the completion of construction and the formal operation during 2017. Cost of sales and services from wastewater treatment operating services accounted for 11.5% and 11.0% of our total cost of sales and services for the years ended 31 December 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 87.6% from RMB153.3 for the year ended 31 December 2016 to RMB19.0 million 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, while projects under construction during the Reporting Period were primarily of small scale, such as Ya'erdang capacity expansion project.

1.3 Gross profit and gross profit margin

As a result of above, our gross profit slightly increased from RMB214.6 million for the year ended 31 December 2016 to RMB253.5 million for the Reporting Period. Gross profit margin decreased from 25.7% for the year ended 31 December 2016 to 23.4% 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 25.7% from RMB32.9 million for the year ended 31 December 2016 to RMB24.5 million for the Reporting Period. The corresponding gross profit margin decreased from 18.3% for the year ended 31 December 2016 to 11.8% for the Reporting Period. Such decrease was primarily due to an increase in maintenance expenses and day-to-day operating costs of Nanjiao Supply Plant II with its production not yet to reach its full capacity.

1.3.1.2 Installation and maintenance services

The gross profit of the Group for installation and maintenance services increased by 32.6% from RMB99.6 million for the year ended 31 December 2016 to RMB132.1 million for the Reporting Period. The corresponding gross profit margin decreased from 73.2% for the year ended 31 December 2016 to 61.2% for the Reporting Period, which was mainly attributable to increased material and equipment costs.

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 RMB493,000 and RMB995,000 for the years ended 31 December 2016 and 2017, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% for both the years ended 31 December 2016 and 2017.

1.3.2 Wastewater treatment

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services increased by 11.1% from RMB54.3 million for the year ended 31 December 2016 to RMB60.3 million for the Reporting Period. The corresponding gross profit margin decreased from 43.1% for the year ended 31 December 2016 to 39.7% for the Reporting Period. The decrease in gross profit margin was attributable to the increased provision for maintenance because of the trial operation of Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant in July 2015, July 2016 and July 2016, respectively.

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 RMB171,000 for the year ended 31 December 2016 to RMB11,000 for the Reporting Period. Such decrease was mainly because construction of Chengdong Treatment Plant and Chengnan Treatment Plant was completed in June 2016, while projects under construction during the Reporting Period were primarily of small scale, such as Ya'erdang capacity expansion project. The corresponding gross profit margin for both the years ended 31 December 2016 and 2017 remained stable at 0.1%.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net decreased significantly from RMB33.4 million for the year ended 31 December 2016 to RMB14.7 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 the Group's gains on disposal of properties for the Reporting Period were just RMB17,000 (2016: RMB3.8 million) and the Group recorded a net foreign exchange losses of RMB17.6 million, mainly arising from conversion of our Hong Kong dollar denominated listing proceeds into Renminbi when there was depreciation of Hong Kong dollar against Renminbi (2016: RMB0.5 million).

1.5 Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 25.7% from RMB10.0 million for the year ended 31 December 2016 to RMB12.5 million for the Reporting Period. Such increase was primarily due to the listing in March 2017, leading to 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 25.0% from RMB46.3 million for the year ended 31 December 2016 to RMB57.9 million for the Reporting Period. The increase was mainly due to the increase in professional service fees paid for settlement audit of treatment plants, audit and evaluation services.

1.7 Listing Expenses

The Group's listing expenses increased from RMB1.8 million for the year ended 31 December 2016 to RMB7.7 million for the Reporting Period, primarily because 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 11.7% from RMB24.1 million for the year ended 31 December 2016 to RMB26.9 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

In line with the decrease in profit before tax, the Group's income tax expenses decreased from RMB25.0 million for the year ended 31 December 2016 to RMB20.5 million for the Reporting Period. For the years ended 31 December 2016 and 2017, the effective tax rate was 15.1% and 12.6%, respectively. The reason for the decrease of effective tax rate was that during the Reporting Period, Chengdong Treatment Plant and Chengnan Treatment Plant were entitled to preferential tax for the first three years from their commencement of operations and a 50% tax reduction for the three years thereafter.

1.10 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group increased by 1.3% from RMB140.8 million for the year ended 31 December 2016 to RMB142.7 million for the Reporting Period. Our profit margin after tax decreased from 16.8% for the year ended 31 December 2016 to 13.2% for the Reporting Period.

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

2.1 *Property, Plant and Equipment*

Our property, plant and equipment was RMB37.0 million and RMB37.3 million as at 31 December 2016 and 2017, respectively, which consisted primarily of buildings, machinery and office equipment, office furniture and fixtures and vehicles. Such increase was 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 RMB1,461.2 million as at 31 December 2016 and 2017, 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 RMB750.9 million as at 31 December 2016 and 2017, 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 RMB28.0 million, as at 31 December 2016 and 2017, respectively. Such increase was mainly because the Group began overall district water supply during the Reporting Period 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:

	For the year ended 31 December	
	2017	2016
Average inventory turnover days [1]	**23**	25

Note:

(1) 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 of 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 25 days for the year ended 31 December 2016 to 23 days for the Reporting Period. Such decrease was a result of our enhanced internal control over inventories.

2.5 *Trade Receivables*

Our trade receivables were RMB83.7 million and RMB100.4 million as at 31 December 2016 and 2017, respectively.

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

	For the year ended 31 December	
	2017	2016
Average trade receivables turnover days [1]	**55**	60

Note:

(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 of infrastructure services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days decreased from 60 days for the year ended 31 December 2016 to 55 days for the Reporting Period. Such decrease was a result of our enhanced management policies on trade receivables collection.

2.6 *Trade Payables*

Our trade payables were RMB10.4 million and RMB21.8 million as at 31 December 2016 and 2017, respectively.

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

	For the year ended 31 December	
	2017	2016
Average trade payables turnover days[1]	**16**	11

Note:

(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 of infrastructure 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 of infrastructure services are included in the other payables. We believe exclusion of cost of construction and upgrade of infrastructure services is a more accurate reflection of our actual trade payables condition. The reason for such increase was that the Group purchased a large amount of far passing water gauge and pipe material during the Reporting Period.

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:

	For the year ended 31 December	
	2017	2016
Average trade payables and construction payables turnover days(1)	**95**	84

Note:

(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 84 days for the year ended 31 December 2016 to 95 days for the Reporting Period. Such increase was primarily attributable to our increased construction 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 RMB145.0 million as at 31 December 2016 and 2017, respectively. The increase in deferred revenue was mainly attributable to government grants provided in relation to the Ya'erdang capacity expansion project to the Group during the Reporting Period.

2.9 *Advance from Customers and Other Payables*

Our advance from customers and other payables increased from RMB319.9 million as at 31 December 2016 to RMB431.5 million as at the end of the Reporting Period, which was primarily attributable to (i) advance from customers related to installation projects for residential users; and (ii) construction payables and deposits received.

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 the Reporting Period, the cash and cash equivalents of the Group amounted to RMB700.1 million (the end of 2016: RMB526.6 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to RMB602.8 million (the end of 2016: RMB685.3 million), including bank and other borrowings, in which approximately 77.4% of our bank and other borrowings bears interest at floating rates.

As at the end of the 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 -5.2% (the end of 2016: 11.2%).

III. OTHER INFORMATION

(I) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 775 employees (the end of 2016: 787 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB116.7 million (2016: RMB95.8 million). The Company will endeavour to keep the level of employees' remuneration in line with industry practices and prevailing market conditions. Such remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, will be determined based on their performance. The Company 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.

(II) Initial Public Offering and Use of Proceeds from the Initial Public Offering

The Company was listed on 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$400.8 million. Some of proceeds from the initial public offering of the Company had been used as disclosed in the prospectus of the Company dated 21 March 2017 (the "**Prospectus**"). As at the end of the Reporting Period, HK$174.0 million of the proceeds had been used by the Group as disclosed in the Prospectus and HK$226.8 million of the proceeds had not yet been used.

(III) Major Acquisitions and Disposals

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

(IV) Pledges of the Group's Assets

As at the end of the Reporting Period, the secured bank borrowings of the Group were secured by the charging right for certain wastewater treatment fees with the interest at floating rate of 4.90% per annum, plus the land use right of Er'daoxi Branch (a wastewater treatment company of the Group) as collateral. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

(V) Foreign Exchange Risks

The Group carries out business in the PRC and receives revenue and pays costs/expenses in RMB. The Group has a borrowing from The World Bank that is US$ denominated at the end of the Reporting Period, and unutilised listing proceeds denominated in Hong Kong dollar and recognised net foreign exchange losses of RMB17.6 million in the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

(VI) Contingent Liabilities

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

(VII) Major Investment Plans

Save as disclosed in the Prospectus, the Company has no further plans for major investments or acquisition of capital assets in the future.

(VIII) Significant Investment Held

As at the end of the Reporting Period, the available-for-sale investments held by the Group amounted to RMB53.63 million (2016: RMB53.63 million), which represents the Group's equity investment in 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC that do not have quoted market prices in an active market and whose fair values cannot be reliably measured.

(IX) Dividends for the Year

The Board proposed to distribute final dividends of RMB0.08 per share (tax inclusive) for the year ended 31 December 2017 to shareholders whose names appeared on the register of members of the Company on Tuesday, 10 July 2018 (the "**Record Date**") (subject to the approval of Shareholders on the annual general meeting to be held on Friday, 15 June 2018 (the "**Annual General Meeting**")), with the total amount being approximately RMB68,776,800.00. Once approved, the final dividends will be paid on or before Monday, 30 July 2018.

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

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

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

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

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

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

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

(X) Closure of Register of Members

In order to determine the qualification to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 16 May 2018 to Friday, 15 June 2018 (both days inclusive), during which period no transfer of shares of the Company will be effected. The record date for the qualification to attend and vote at the Annual General Meeting will be Wednesday, 16 May 2018. In order to be entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of holders of H shares), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of holders of domestic shares) no later than 4:30 p.m. on Tuesday, 15 May 2018.

In order to determine the holders of domestic shares and the holders of H shares who are entitled to final dividends, subject to approval of shareholders at the Annual General Meeting, the register of members of the Company will be closed from Friday, 6 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which period no transfer of shares of the Company will be effected. The Company will pay final dividends to holders of domestic shares and holders of H shares whose names appear on the register of members of the Company on Tuesday, 10 July 2018. In order to be entitled to final dividends, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of holders of H shares), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of holders of domestic shares) no later than 4:30 p.m. on Thursday, 5 July 2018.

(XI) 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. Xie Xin, 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 consolidated financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2017.

(XII) 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.

(XIII) 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.

(XIV) Change in Directors' Information

During the period from the Listing Date to the end of the Reporting Period, there was no change in our Directors' information, except for that the position of Mr. Yang Ronggui as non-executive Director was taken by Mr. Xie Xin.

(XV) 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 the Reporting Period, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

(XVI) 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 "**Supervisors**"). The Company has made specific inquiries to all Directors and Supervisors, and all Directors and Supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the period from the Listing Date to the end of the Reporting Period.

(XVII) Directors' and Supervisors' Interests in Competing Business

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

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

During the period from the Listing Date to the end of the Reporting Period, none of the Company or any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

(XIX) 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 the announcement of annual results for the year ended 31 December 2017.

IV. REVIEW OF ANNUAL RESULTS

Scope of work of Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the preliminary announcement.

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

This announcement of annual results has been published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The annual report of the Group for the year ended 31 December 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 March 2018

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, Ms. Xu Yan and Mr. Xie Xin; 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*