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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018:

- Revenue amounted to approximately RMB567.8 million, representing an increase of approximately 47.2% over the same period of last year.
- Profit for the period amounted to approximately RMB69.2 million, representing an increase of approximately 30.4% over the same period of last year.
- Profit attributable to owners of the Company amounted to approximately RMB65.4 million, representing an increase of approximately 33.9% over the same period of last year.
- Basic earnings per share amounted to approximately RMB0.08, representing an increase of approximately 33.3% over the same period of last year.
- The Board did not recommend the distribution of any interim dividends for the six months ended 30 June 2018.

The board (the “**Board**”) of directors (the “**Directors**”) of Luzhou Xinglu Water (Group) Co., Ltd.* (the “**Company**” or “**we**”) is pleased to announce the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”) together with comparative figures for the same period in 2017 as follows:

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	<i>Notes</i>	Six months ended 30 June	
		2018	2017
		<i>RMB’000</i>	<i>RMB’000</i>
		(unaudited)	(unaudited)
Revenue	3	567,809	385,770
Cost of sales and services		(443,231)	(277,469)
Gross profit		124,578	108,301
Other income, expenses, gains and losses, net	5	1,156	7,397
Distribution and selling expenses		(5,639)	(6,659)
Administrative expenses		(23,993)	(26,547)
Listing expenses		–	(7,722)
Finance costs	6	(16,786)	(12,174)
Profit before tax	8	79,316	62,596
Income tax expense	7	(10,132)	(9,546)
Profit for the period		69,184	53,050

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on equity instruments at fair value through other comprehensive income		1,494	–
Deferred income tax on fair value gain on equity instruments at fair value through other comprehensive income		(374)	–
Other comprehensive income for the period (net of tax)		1,120	–
Total comprehensive income for the period		70,304	53,050
Profit for the period attributable to:			
Owners of the Company		65,380	48,838
Non-controlling interests		3,804	4,212
		69,184	53,050
Total comprehensive income for the period attributable to:			
Owners of the Company		66,500	48,838
Non-controlling interests		3,804	4,212
		70,304	53,050
EARNINGS PER SHARE (RMB)	10		
– Basic		0.08	0.06
– Diluted		N/A	0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

		At 30 June 2018	At 31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
Non-Current Assets			
Property, plant and equipment		37,044	37,320
Prepaid lease payments		76,908	77,778
Investment properties		12,847	13,071
Intangible assets	11	1,627,592	1,461,240
Prepayments for prepaid lease payments		4,000	4,000
Receivables under service concession arrangements	11	728,606	736,408
Available-for-sale investments		–	53,630
Equity instruments at fair value through other comprehensive income		59,585	–
Deferred tax assets		11,623	9,007
		2,558,205	2,392,454
Current Assets			
Inventories		33,583	28,016
Receivables under service concession arrangements	11	15,232	14,493
Trade receivables	12	111,501	100,429
Amounts due from customers for contract work		–	10,464
Contract assets		17,068	–
Prepaid lease payments		1,773	1,764
Prepayments and other receivables		22,457	17,121
Bank balances and cash		742,994	700,075
		944,608	872,362

		At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
	<i>Notes</i>		
Current Liabilities			
Trade payables	13	27,388	21,752
Advances from customers and other payables		371,685	431,450
Contract liabilities		159,656	–
Tax liabilities		11,009	12,723
Borrowings		322,905	289,574
Provisions		5,607	4,902
		<u>898,250</u>	<u>760,401</u>
Net Current Assets		<u>46,358</u>	<u>111,961</u>
Total Assets Less Current Liabilities		<u>2,604,563</u>	<u>2,504,415</u>
Capital and Reserves			
Share capital	14	859,710	859,710
Share premium and reserves		<u>927,599</u>	<u>926,530</u>
Equity attributable to owners of the Company		1,787,309	1,786,240
Non-controlling interests		<u>93,490</u>	<u>91,676</u>
Total Equity		<u>1,880,799</u>	<u>1,877,916</u>
Non-Current Liabilities			
Deferred tax liabilities		10,738	12,615
Borrowings		365,577	313,185
Deferred income – government grants		162,497	145,036
Provisions		<u>184,952</u>	<u>155,663</u>
		<u>723,764</u>	<u>626,499</u>
		<u>2,604,563</u>	<u>2,504,415</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

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 (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for equity instruments at fair value through other comprehensive income, which are measured at fair values.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers and the Related Amendments</i>
IFRIC-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Amendments to IAS 28	<i>As part of the Annual Improvements to IFRSs 2014–2016 Cycle</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Sale of tap water
- Provision of wastewater treatment operating services
- Interest income on receivables under service concession arrangements
- Installation services
- Construction and upgrade services of tap water supply and wastewater treatment infrastructure

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- (b) the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- (c) the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue from sale of tap water is recognised at a point in time when the Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

Revenue from provision of wastewater treatment operating services is recognised at a point in time when service is rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from provision of installation services and construction and upgrade services of tap water supply and wastewater treatment infrastructure is derived from long-term contracts with customers. Such contracts are entered into before the services begin. Under the term of contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates and enhances an asset that the customer controls as the Group performs. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

2.1.2 Summary of effects arising from initial application of IFRS 15

There was no significant impact on the timing and amounts of revenue recognised upon adoption of IFRS 15. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018* RMB'000
	Notes			
Current Assets				
Amounts due from customers				
for contract work	(a)	10,464	(10,464)	–
Contract assets	(a)	–	10,464	10,464
Current Liabilities				
Advances from customers				
and other payables	(b)	431,450	(120,517)	310,933
Contract liabilities	(b)	–	120,517	120,517

* The amounts in this column are before the adjustments from the application of IFRS 9.

- (a) In relation to installation services previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. The amounts due from for contract work totaling to RMB10,464,000 were reclassified to contract assets.
- (b) As at 1 January 2018, advances from customers of RMB120,517,000 in respect of installation services contracts before commencement of works previously included in advances from customers and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported *	Adjustment**	Amount without application of IFRS 15
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current Assets			
Amounts due from customers for contract work	–	18,260	18,260
Contract assets	18,260	(18,260)	–
Current Liabilities			
Advances from customers and other payables	371,685	159,656	531,341
Contract liabilities	159,656	(159,656)	–

* The amounts in this column are before the adjustments from the application of IFRS 9. As at 30 June 2018, the Group made impairment of RMB1,192,000 against its contract assets in accordance with IFRS 9.

** The nature of the adjustments is similar to the reclassification made to the carrying amounts previously reported at 31 December 2017.

2.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments*

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under *Financial Instruments: Recognition and Measurement* (“IAS 39”).

2.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“**FVTPL**”), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“**OCI**”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “other income” line item in profit or loss.

The directors of the Company reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group’s financial assets and the impacts thereof are detailed in note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including bank balances, trade and other receivables, receivables under service concession arrangements and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments (including bank balances, other receivables and receivables under service concession arrangements), the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

		Equity				
	Note	Available- for-sale RMB'000	instruments at FVTOCI RMB'000	Deferred tax assets RMB'000	FVTOCI reserve RMB'000	Contract assets RMB'000
Closing balance at 31 December 2017 – IAS 39		53,630	–	9,007	–	–
Effect arising from initial application of IFRS 15		–	–	–	–	10,464
Effect arising from initial application of IFRS 9:						
Reclassification:						
From available-for-sale	(a)	(53,630)	53,630	–	–	–
Remeasurement:						
From cost less impairment to fair value	(a)	–	4,461	(1,115)	3,346	–
Opening balance at 1 January 2018		–	58,091	7,892	3,346	10,464

(a) Available-for-sale investments

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale, of which RMB53,630,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, unquoted equity investments of RMB53,630,000 previously measured at cost less impairment under IAS 39 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of RMB4,461,000 relating to those unquoted equity investments previously carried at cost less impairment and RMB3,346,000 (such fair value gains net of deferred tax) and deferred tax charge of RMB1,115,000 were adjusted to equity instruments at FVTOCI, FVTOCI reserve and deferred tax assets as at 1 January 2018, respectively.

(b) Impairment under ECL model

To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bank balances, other receivables and receivables under service concession arrangements are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

Based on the assessment by the directors of the Company, additional impairment loss on the Group's bank balances, contract assets, trade and other receivables and receivables under service concession arrangement recognised under IFRS 9 as at 1 January 2018 was insignificant.

3. REVENUE

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Tap water supply		
– Tap water*	106,310	97,790
– Installation services**	163,605	67,726
– Construction and upgrade services of tap water supply infrastructure**	161,944	131,688
	431,859	297,204
Wastewater treatment		
– Operating services*	78,805	70,462
– Interest income on receivables under service concession arrangements	16,549	17,897
– Construction and upgrade services of wastewater treatment infrastructure**	40,596	207
	135,950	88,566
	567,809	385,770

* These revenue streams were recognised at a point in time when the customers obtain control of the distinct good or service.

** These revenue streams were recognised over time by reference to the progress towards complete satisfaction of the relevant obligation.

The Group's above revenue were derived from the People's Republic of China (the "PRC").

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 and installation 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 and installation services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “Tap water supply segment”, because, in the opinion of the directors of the Company, they have similar economic characteristics and provide tap water supply and related construction and installation 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	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
— From external customers		
— Tap water	106,310	97,790
— Installation services	163,605	67,726
— Construction and upgrade services of tap water supply infrastructure	161,944	131,688
— Inter-segment sales*		
— Tap water	159	144
Wastewater treatment		
— From external customers		
— Operating service	78,805	70,462
— Interest income on receivables under service concession arrangements	16,549	17,897
— Construction and upgrade services of wastewater treatment infrastructure	40,596	207
Elimination*	(159)	(144)
Revenue	567,809	385,770
Segment results		
— Tap water supply**	42,141	17,771
— Wastewater treatment	27,043	43,001
Unallocated expenses	—	(7,722)
Profit after tax	69,184	53,050

* Inter-segment sales for the six months ended 30 June 2017 and 2018 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 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Segment assets		
— Tap water supply	2,341,360	2,114,395
— Wastewater treatment	1,162,493	1,150,461
Elimination	<u>(1,040)</u>	<u>(40)</u>
Consolidated total assets	<u>3,502,813</u>	<u>3,264,816</u>
Segment liabilities		
— Tap water supply	1,083,082	881,958
— Wastewater treatment	539,972	504,982
Elimination	<u>(1,040)</u>	<u>(40)</u>
Consolidated total liabilities	<u>1,622,014</u>	<u>1,386,900</u>

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly.

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

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	2,054	1,333
Government grants	2,646	3,448
Value-added-tax (“VAT”) refunds (<i>Note (a)</i>)	4,582	9,874
Commission income on garbage fees collected for government bureau	252	35
Late charges on tap water users	1,525	1,148
Rental income less outgoings	311	301
Losses on disposal of property, plant and equipment, net	(13)	–
Impairment losses on trade and other receivables	(1,853)	(198)
Impairment losses on contract assets	(1,192)	–
Sewage charges	(131)	(116)
Foreign exchange losses, net	(8,321)	(7,586)
Donations	(32)	(204)
Others (<i>Note (b)</i>)	1,328	(638)
	<u>1,156</u>	<u>7,397</u>

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 of the Company, the Group achieved both the technology requirements and pollutant emission standards prescribed.
- b. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, secondary water supply equipment and other materials, etc.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest on bank borrowings	13,364	11,549
Interest on other borrowings	476	166
Unwinding of the discount	3,934	2,714
	<u>17,774</u>	<u>14,429</u>
Less: Amount capitalised in qualified assets	(988)	(2,255)
	<u>16,786</u>	<u>12,174</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax	16,113	9,863
Deferred tax	(5,981)	(317)
	<u>10,132</u>	<u>9,546</u>

The Group entities are subject to PRC Enterprise Income Tax (“**EIT**”) at 25% during the six months ended 30 June 2018 (six months ended 30 June 2017: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	Financial periods
The Company*	15%	Six months ended 30 June 2017 and 2018
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Nanjiao Water Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Sitong Tap Water Engineering Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater Treatment”)*/**	nil or 15%	Six months ended 30 June 2017 and 2018
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.*	15%	Six months ended 30 June 2017 and 2018

* 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 2018, and therefore enjoy the preferential EIT rate of 15% for the period.

** 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 six months ended 30 June 2017 and 2018.

8. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	2,957	2,068
Depreciation of investment properties	224	224
Amortisation of intangible assets	36,188	20,319
Amortisation of prepaid lease payments	861	845
Staff costs (including the directors' and supervisors' remuneration):		
— Salaries, wages and welfare	56,202	45,569
— Retirement benefit schemes contributions	9,725	8,975
Total staff costs	65,927	54,544
and after crediting:		
Gross rental income from investment properties	467	457
Less: Direct operating expenses incurred for investment properties that generated rental income	(156)	(156)
	311	301

9. DIVIDENDS

In the current interim period, a final dividend of RMB0.08 per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: (unaudited) Nil) was declared to the shareholders of the Company. The aggregate amount of the final dividend declared in the current interim period amounted to RMB68,777,000 (six months ended 30 June 2017: (unaudited) Nil).

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: (unaudited) Nil).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Profit attributable to the owners of the Company (<i>RMB'000</i>)	65,380	48,838
Weighted average number of ordinary shares issued (<i>'000</i>)	859,710	763,629

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 14) 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 2018 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.

In April 2018, the Group entered into a concession agreement with Water Resources Bureau of Jiangyang District of Luzhou Municipality (瀘州市江陽區水務局) for tap water supply operations in township streets and rural areas in Jiangyang District. The term of the concession right is 30 years commencing from 30 September 2018. Initial unit prices for different types of end users are set out in the Cooperative Agreement of tap water supply operations in township streets and rural areas in Jiangyang District which is entered into by the Group and the People's Government of Jiangyang District of Luzhou Municipality. During the concession period, the Group shall ensure uninterrupted tap water supply to end users, maintain water supply infrastructure, monitor the quality of raw water source, perform meter readings and disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures. Upon expiry of concession period or in the event of the Group's default, the Group's concession right terminates. The events of the Group's default include: asset disposal without permission; material adverse impact on public interest and safety due to close of business without permission; material quality or safety accidents or pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period. If the Group's performance during the concession period is satisfactory, the Group has the priority to extend the concession right upon expiration.

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

	<i>RMB'000</i>
Cost	
At 31 December 2017 (audited)	1,633,384
Addition	<u>202,540</u>
At 30 June 2018 (unaudited)	<u>1,835,924</u>
Accumulated amortisation	
At 31 December 2017 (audited)	(172,144)
Amortisation for the period	<u>(36,188)</u>
At 30 June 2018 (unaudited)	<u>(208,332)</u>
Carrying amounts	
At 30 June 2018 (unaudited)	<u><u>1,627,592</u></u>
At 31 December 2017 (audited)	<u><u>1,461,240</u></u>

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 2018 of RMB420.1 million (31 December 2017: (audited) RMB323.0 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 2017 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the directors of the Company covering a five-year period and pre-tax discount rates ranging 12.3% to 16.5% 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 of the Company, 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 30 June 2018, the directors of the Company determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 30 June 2018. The directors of the Company 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 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Non-current portion	728,606	736,408
Current portion	15,232	14,493
	<u>743,838</u>	<u>750,901</u>

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Expected collection schedule is analysed as follows:		
Within one year	15,232	14,493
More than one year, but not exceeding two years	17,315	16,590
More than two years, but not exceeding three years	18,474	18,079
More than three years, but not exceeding four years	19,319	18,904
More than four years, but not exceeding five years	20,205	19,770
Over five years	653,293	663,065
	<u>743,838</u>	<u>750,901</u>

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% (31 December 2017: (audited) 3.51% to 6.00%) per annum.

12. TRADE RECEIVABLES

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 invoice dates, which approximate revenue recognition dates, net of allowance for doubtful debts:

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Within 3 months	84,398	78,613
Between 4 months and 6 months	17,129	17,300
Between 7 months and 12 months	9,974	1,042
Over 1 year	—	3,474
	<u>111,501</u>	<u>100,429</u>

13. TRADE PAYABLES

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

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Within 6 months	22,621	18,649
Between 7 months and 12 months	2,549	811
Over 1 year	2,218	2,247
	<u>27,388</u>	<u>21,752</u>

The credit period on purchases are generally within 6 months.

14. SHARE CAPITAL

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Registered, issued and fully paid:		
At the beginning of the period/year	859,710	664,310
Issue of new ordinary shares (<i>Note</i>)	—	195,400
At the end of the period/year	<u>859,710</u>	<u>859,710</u>
	<i>'000</i> (unaudited)	<i>'000</i> (audited)
Shares of RMB1 each		
— Domestic shares (<i>Note</i>)	644,770	644,770
— H shares	214,940	214,940
	<u>859,710</u>	<u>859,710</u>

Note:

On 31 March 2017, 195,400,000 of new 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 H 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 reserves.

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 (the “**Hong Kong Stock Exchange**”).

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

After the 19th National Congress, China entered a new era of development as well as a new opportunity period for the development of environmental protection and water treatment industry. The 19th National Congress report clearly proposed the acceleration of reform of ecological civilization for building a beautiful China. The “Opinions regarding Comprehensively Enhancement of Eco-Environmental Protection, Putting Effort on Pollution Prevention and Treatment” (《關於全面加強生態環境保護，堅決打好污染防治攻堅站的意見》) (hereinafter referred to as “**Ten Provisions for Eco-Environment Protection**”) issued by the Central Committee of the Communist Party of China in June 2018, being the overall work deployment proposed by the country for eco-environmental protection work after the environmental protection conference, explicitly set the goal with clear direction for the next stage of the nationwide eco-environmental protection. It also showed that the eco-environmental protection and pollution prevention work has entered a crucial stage. With continuous deepening of the eco-environment treatment such as green development of Yangtze Economic Belt, treatment of black odor water, solid waste and hazardous waste field and rural wastewater treatment have become hot spots in the environmental protection industry, the Ten Provisions for Eco-Environment Protection further released the demand for environmental treatment, giving rise to prosperity in environmental industry market, and also bringing more development opportunities for environmental protection and water enterprises.

Currently, we can see that the development of wastewater treatment industry has improved in leaps and bounds, with more than 5,000 wastewater treatment plants at or above the county level, which are currently extending to the village market. After years of reform and development, the waste treatment field has gradually matured, the waste incineration market has been continuously improved, and emerging markets such as environmental hygiene and hazardous waste are constantly being developed.

The “Opinions on Innovation and Improvement of Price Mechanism for Green Development” (《關於創新和完善促進綠色發展的價格機制的意見》) (hereinafter referred to as “**Opinions on Price Mechanism**”) issued by the National Development and Reform Commission in July 2018 brought new development benefits to environmental protection and water enterprises. The Opinions on Price Mechanism mainly focus on four aspects, i.e. optimization of wastewater treatment charging policies, improvement of mechanism for solid waste treatment charges, establishment of a price mechanism conducive to water conservation, and improvement of electricity price mechanism promoting energy conservation and environmental protection. In particular, the charge of rural environmental protection and domestic garbage was a breakthrough, which fundamentally solved the problem of insufficient investment in environmental protection treatment in rural areas, and strongly promoted in-depth development of environmental protection related industries. The establishment of dynamic adjustment mechanism for urban wastewater treatment fees, charging mechanism coordinated with wastewater treatment standards, and marketization formation mechanism for urban wastewater treatment service fees involved in the Opinions on Price Mechanism aimed to shorten the time for review of treatment cost, and increase the frequency of price adjustment, which will significantly be in favor of related water and environmental protection enterprises in the mid and long run.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2018, the Company will continue to follow the guideline of “work style reform, efficiency improvement, execution strengthening and quality assurance”. It will commence all-round construction of smart enterprise for water treatment, promote the use of online monitoring in the production sites, unmanned pumping station, drug injection model, DMA measurement by areas and other technology usage to improve the technological content of the production process, and create core competitiveness of the Company. The Group will seize the opportunity brought by water and environment protection industry, make use of its professional advantages to actively commence external business extension, acquire appropriate projects to complement existing business to further expand market share. The Group will seize the development opportunities in the environmental protection industry, carry out overall district pollution treatment and overall district water treatment while continuing to expand the area of overall district water supply, enter the township and rural wastewater treatment market, improve the investment, construction, management and operation model, and gradually form a replicable township wastewater treatment model. The Group will carry out trial environmental protection new industry for water, and launch black odor water improvement and environment treatment work for water.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, principally engages 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 six tap water plants and nine wastewater treatment plants with a total treatment capacity of approximately 677,500 tons per day.

Tap Water Business

As at the end of the Reporting Period, the Group owned six water supply concession projects with a daily supply capacity of approximately 416,500 tons in aggregate, representing a decrease of 2 tap water plants, a decrease of approximately 14,000 tons of daily water supply capacity, an increase of approximately 5,000 tons of daily water supply capacity of Hejiang Water Plant and a decrease of approximately 9,000 tons of daily water supply capacity in aggregate as compared with that as at 31 December 2017. The average utilisation rate of tap water plants stood at 78.1%. The decrease of 2 tap water plants was mainly because the water supply area of the newly-built Qiancao Supply Plant II covers such water supply area of these 2 old tap water plants. From the perspective of economical efficiency of operation, modern water plants were built to replace small scale water plants with aging facilities, low efficiency and high operating cost.

During the Reporting Period, the total sales of water amounted to approximately 50.8 million tons, representing an increase of 15.1% as compared with approximately 44.1 million tons for the six months ended 30 June 2017. The increase was mainly due to the expansion of the city, the increase in the business volume from the area of overall district water supply and the growth in “water/power/gas supply and property” business.

Wastewater Treatment Project

As at the end of the Reporting Period, the Group owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 261,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 72.7%.

During the Reporting Period, our total actual wastewater treatment capacity amounted to approximately 34.4 million tons, representing an increase of 9.2% as compared with the total actual wastewater treatment capacity of approximately 31.5 million tons for the six months ended 30 June 2017. Our total capacity of wastewater treatment with charges amounted to approximately 41.8 million tons, representing an increase of 7.0% as compared with the total capacity of wastewater treatment with charges of approximately 39.1 million tons for the six months ended 30 June 2017, which was mainly attributable to, as stipulated in the relevant service agreements, the increase in the water volume for calculating the minimum charges of wastewater treatment services as compared with the same period of last year.

(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 increased by 47.2% from RMB385.8 million for the six months ended 30 June 2017 to RMB567.8 million during 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 8.7% from RMB97.8 million for the six months ended 30 June 2017 to RMB106.3 million for the Reporting Period. Such increase was primarily due to a growth in the sales volume of tap water from approximately 44.1 million tons for the six months ended 30 June 2017 to approximately 50.8 million tons during the Reporting Period. Revenue generated from sales of tap water accounted for 25.3% and 18.7% of our total revenue for the six months ended 30 June 2017 and 2018, respectively.

1.1.1.2 Installation services

Revenue of the Group generated from installation services increased by 141.6% from RMB67.7 million for the six months ended 30 June 2017 to RMB163.6 million during the Reporting Period. Such increase was mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation services accounted for 17.6% and 28.8% of our total revenue for the six months ended 30 June 2017 and 2018, 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 23.0% from RMB131.7 million for the six months ended 30 June 2017 to RMB161.9 million during the Reporting Period. Such increase was mainly due to the increase in the amount of upgrade works for 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 11.8% from RMB70.5 million for the six months ended 30 June 2017 to RMB78.8 million during the Reporting Period. Such increase was primarily due to the increase in the wastewater treatment capacity and increase in demand for wastewater treatment. The wastewater treatment capacity also increased as compared with the same period last year. The total treatment volume of charged wastewater was 39.1 million tons and 41.8 million tons for the six months ended 30 June 2017 and 2018, respectively. Revenue generated from wastewater treatment operation accounted for 18.3% and 13.9% of our total revenue for the six months ended 30 June 2017 and 2018, respectively.

1.1.2.2 Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements decreased by 7.5% from RMB17.9 million for the six months ended 30 June 2017 to RMB16.5 million during the Reporting Period. Such decrease was mainly due to settlement of receivables.

1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure increased from RMB207,000.0 for the six months ended 30 June 2017 to RMB40.6 million during the Reporting Period. Such increase was mainly due to the construction of the Yaerdang capacity expansion and upgrading project during the Reporting Period.

1.2 Cost of sales and services

The Group's cost of sales and services increased by 59.7% from RMB277.5 million for the six months ended 30 June 2017 to RMB443.2 million as at the end of 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 9.6% from RMB91.6 million for the six months ended 30 June 2017 to RMB100.4 million during the Reporting Period. Such increase was primarily due to commencement of operation of Qiancao Supply Plant II in the second half of 2017, leading to infrastructure amortization and significant increase in accruals and labor cost during the Reporting Period. Cost of sales and services from tap water supply operations accounted for 33.0% and 22.7% of our total cost of sales and services for the six months ended 30 June 2017 and 2018, respectively.

1.2.1.2 Installation services

The Group's cost of sales and services associated with installation services increased by 359.0% from RMB18.2 million for the six months ended 30 June 2017 to RMB83.5 million during the Reporting Period. Such increase was mainly due to the increase in the volume of installation work we undertook and the increase in materials.

1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services generated from construction and upgrade on tap water supply infrastructure increased by 22.9% from RMB131.4 million for the six months ended 30 June 2017 to RMB161.5 million during the Reporting Period. Such increase was mainly due to the increase in the amount of upgrade works for 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 58.8% from RMB36.0 million for the six months ended 30 June 2017 to RMB57.3 million during the Reporting Period. Such increase was mainly due to the increase in wastewater treatment volume and stricter environmental protection requirements, and the increase in the cost of pharmacy and cleaning and transportation fees for sludge as a result of entering the second year of the duly operation of Chengdong Wastewater Treatment Plant and Chengnan Wastewater Treatment Plant and the third year of the duly operation of Naxi Wastewater Treatment Plant. Cost of sales and services from wastewater treatment operating services accounted for 13.0% and 12.9% of our total cost of sales and services for the six months ended 30 June 2017 and 2018, 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 increased from RMB207,000.0 for the six months ended 30 June 2017 to RMB40.6 million during the Reporting Period. Such increase was mainly due to the construction of the Yaerdang capacity expansion and upgrading project during the Reporting Period.

1.3 Gross profit and gross profit margin

As a result of above, our gross profit slightly increased from RMB108.3 million for the six months ended 30 June 2017 to RMB124.6 million during the Reporting Period. Gross profit margin decreased from 28.1% for the six months ended 30 June 2017 to 21.9% during 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 4.2% from RMB6.2 million for the six months ended 30 June 2017 to RMB5.9 million during the Reporting Period. The corresponding gross profit margin decreased from 6.3% for the six months ended 30 June 2017 to 5.6% during the Reporting Period, which was primarily due to commencement of operation of the Qiancao Supply Plant II in December 2017, leading to infrastructure amortization and increase in accruals and labor costs during the Reporting Period

1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 61.7% from RMB49.5 million for the six months ended 30 June 2017 to RMB80.1 million during the Reporting Period. The corresponding gross profit margin decreased from 73.1% for the six months ended 30 June 2017 to 49.0% during the Reporting Period, which was mainly due to the lower gross profit margin of “water/power/gas supply and property” water meters renovation engineering and secondary water supply unified construction and management engineering as compared with general water meters installation project.

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 increased by 46.4% from RMB274,000.0 for the six months ended 30 June 2017 to RMB401,000.0 during the Reporting Period. Such increase was primarily due to the construction of the overall district safety water supply project and pipe construction project in Jiangyang District during the Reporting Period. The corresponding gross profit margin remained relatively stable at 0.2% and 0.3% for the six months ended 30 June 2017 and 2018, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services decreased by 37.4% from RMB34.4 million for the six months ended 30 June 2017 to RMB21.6 million during the Reporting Period. The corresponding gross profit margin decreased from 48.8% for the six months ended 30 June 2017 to 27.3% during the Reporting Period. The decrease in gross profit margin was attributable to the increase in operating cost such as wastewater treatment and sludge disposal arising from stricter environmental protection requirements. However, during the Reporting Period, Chengdong Treatment Plant, Chengnan Treatment Plant and Naxi Treatment Plant Phase II have not reached their maximum production capacity and the growth in operating income was insignificant.

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 increased from nil for the six months ended 30 June 2017 to RMB34,000.0 during the Reporting Period. Such increase was mainly due to the construction of the Yaerdang capacity expansion and upgrading project during the Reporting Period. The gross profit margin for the construction of wastewater treatment infrastructure during the Reporting Period was only 0.1%.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net decreased from RMB7.4 million for the six months ended 30 June 2017 to RMB1.2 million during the Reporting Period.

The decrease in net amount of other income, expenses, gains and losses was mainly due to the decrease of RMB5.3 million of 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.

1.5 Distribution and Selling Expenses

The Group's distribution and selling expenses decreased by 15.3% from RMB6.7 million for the six months ended 30 June 2017 to RMB5.6 million during the Reporting Period. Such decrease was mainly due to the listing of the Group in the first half of 2017, resulting in a higher promotion and advertising expenses as compared with the same period of this year.

1.6 Administrative Expenses

The Group's administrative expenses decreased by 9.6% from RMB26.5 million for the six months ended 30 June 2017 to RMB24.0 million during the Reporting Period, which was mainly due to the higher intermediary expenses for listing in the first half of 2017 as compared with the same period of this year.

1.7 Finance Costs

The Group's finance costs increased by 37.9% from RMB12.2 million for the six months ended 30 June 2017 to RMB16.8 million during the Reporting Period, which was mainly due to the increase in bank borrowings during the Reporting Period.

1.8 Income Tax Expense

In line with the increase in profit before tax, the income tax expenses increased from RMB9.5 million for the six months ended 30 June 2017 to RMB10.1 million during the Reporting Period. For the six months ended 30 June 2017 and 2018, the effective tax rates of the Group were 15.3% and 12.8%, respectively.

1.9 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group increased by 30.4% from RMB53.1 million for the six months ended 30 June 2017 to RMB69.2 million during the Reporting Period. Our profit margin after tax decreased from 13.8% for the six months ended 30 June 2017 to 12.2% during the Reporting Period.

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

2.1 Property, Plant and Equipment

The property, plant and equipment of the Group was RMB37.3 million and RMB37.0 million as at 31 December 2017 and the end of the Reporting Period, respectively, which consisted primarily of office buildings, machinery and office equipment, office furniture and fixtures and vehicles. Apart from the depreciation, property, plant and equipment of the Group slightly decreased from RMB37.3 million as at 31 December 2017 to RMB37.0 million as at the end of the Reporting Period, which was mainly due to the disposal of non-infrastructure related machinery and office equipment during the Reporting Period.

2.2 Intangible Assets

Intangible assets of the Group were RMB1,461.2 million and RMB1,627.6 million as at 31 December 2017 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 during the Reporting Period, such as overall district water supply project in Jiangyang District.

2.3 Receivables under Service Concession Arrangements

The receivables under service concession arrangements of the Group were RMB750.9 million and RMB743.8 million as at 31 December 2017 and the end of the Reporting Period, respectively. Such decrease was mainly due to settlement of the receivables.

2.4 Inventories

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) amounted to RMB28.0 million and RMB33.6 million as at 31 December 2017 and the end of the Reporting Period, 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 reserved a large amount of far passing water gauge and pipe material as at the end of the Reporting Period.

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

	Six months ended 30 June	
	2018	2017
Average inventory turnover days ⁽¹⁾	23	27

- (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 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 27 days for the six months ended 30 June 2017 to 23 days for the Reporting Period, such decrease was primarily as a result of our enhanced internal control over inventories.

2.5 Trade Receivables

Trade receivables of the Group were RMB100.4 million and RMB111.5 million as at 31 December 2017 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	
	2018	2017
Average trade receivables turnover days ⁽¹⁾	53	73

- (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 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 73 days for the six months ended 30 June 2017 to 53 days during the Reporting Period, such decrease was primarily as a result of our enhanced management policies on receivables collection.

2.6 Trade Payables

Trade payables of the Group were RMB21.8 million and RMB27.4 million as at 31 December 2017 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	
	2018	2017
Average trade payables turnover days ⁽¹⁾	19	14

- (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 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. Such increase was mainly due to the purchase of large amount of far passing water gauge and pipe material by the Group 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:

	Six months ended 30 June	
	2018	2017
Average trade		
payables and construction		
payables turnover days ⁽¹⁾	102	110

- (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 decreased from 110 days for the six months ended 30 June 2017 to 102 days for the Reporting Period, which was mainly due to the increase in construction cost of various tap water supply projects, including overall district water supply project in Jiangyang District and other projects.

2.8 Deferred Income – Government Grants

Deferred income – government grants of the Group was RMB145.0 million and RMB162.5 million as at 31 December 2017 and the end of Reporting Period, respectively. The increase in deferred revenue was mainly due to the receipt of government grants for Yaerdang capacity expansion and upgrading project during the Reporting Period.

2.9 Advance from Customers, Contract Liability and Other Payables

Our advance from customers, contract liability and other payables increased from RMB431.5 million as at 31 December 2017 to RMB531.3 million as at the end of the Reporting Period, which was mainly due to our receipt of more advance from customers related to installation projects for residential users during the Reporting Period and 2017 dividend payable.

3. Liquidity and Financial Resources

The Group manages capital to ensure that entities in the Group are able to continue as a going concern and optimize the debt and equity balance to maximise the return to shareholders of the Company (the “**Shareholder**”). 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 RMB743.0 million (31 December 2017: RMB700.1 million).

As at the end of the Reporting Period, the total credit granted to the Group was RMB1,634.0 million (31 December 2017: RMB1,055.0 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to RMB688.5 million (31 December 2017: RMB602.8 million), including bank and other borrowings. Approximately 73.0% 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 -2.9% (31 December 2017: -5.2%).

As at the end of the Reporting Period, the asset-to-debt ratio of the Group (calculated by net debts divided by total capital) was approximately 25.1% (31 December 2017: approximately 21.0%). The increase in asset-to-debt ratio was mainly due to the increase in bank borrowings during the Reporting Period.

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 777 employees (31 December 2017: 775 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB65.9 million (six months ended 30 June 2017: RMB54.5 million). The remunerations and benefits for employees include basic and floating wages, discretionary bonuses and staff benefits. The Group endeavours to keep the level of employees' remuneration in line with industry practices and prevailing market conditions, and such remuneration will be determined based on 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.

(VI) INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, 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. As at the end of the Reporting Period, HK\$271.4 million of the proceeds from the initial public offering had been used by the Group as disclosed in the prospectus of the Company dated 21 March 2017 and HK\$129.4 million of the proceeds had not yet been used.

Use of proceeds	Amount <i>HK\$ million</i>	Amount used <i>HK\$ million</i>	Amount unused <i>HK\$ million</i>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	–	120.24
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	30.92	9.16
Total	400.80	271.4	129.4

(VII) MAJOR ACQUISITIONS, DISPOSALS AND INVESTMENT

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

(VIII) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity instruments held by the Group amounted to RMB59.59 million (31 December 2017: RMB53.63 million), which mainly 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. Such equity instruments investments are measured at fair value through other comprehensive income.

(IX) 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 land use right of Erdaoxi Wastewater Treatment Plant owned by Luzhou Xinglu Wastewater Treatment Co., Ltd., a non-wholly owned subsidiary of the Company and the charging right for certain wastewater treatment fees with the interest at floating rate of 4.90% per annum. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

(X) FOREIGN EXCHANGE RISKS

During the Reporting Period, the Group carried out the business in the PRC, received revenue and paid costs/expenses in RMB. The Group has a borrowing from The World Bank denominated in US dollar and unutilised listing proceeds denominated in Hong Kong dollar and recognised net foreign exchange losses of RMB8.3 million. The Group does not currently hedge its exposure to foreign currencies.

(XI) CONTINGENT LIABILITIES

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

(XII) EVENTS AFTER THE REPORTING PERIOD

As of the date of this announcement, the Group did not have any material events after the Reporting Period.

III. OTHER INFORMATION

(I) INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(II) PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

(III) 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.

(IV) 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 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.

(V) 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 have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period.

(VI) SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the minimum public float required by the Listing Rules during the Reporting Period.

(VII) 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 Hong Kong 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.

IV. REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 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. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 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 Hong Kong 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 2018 will be dispatched to the Shareholders and released on the websites of the Hong Kong Stock Exchange and the Company in due course.

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

Luzhou, the PRC
24 August 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