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 2018

FINANCIAL HIGHLIGHTS FOR 2018

- Revenue amounted to approximately RMB1,218.2 million, representing an increase of approximately 12.6% from the year ended 31 December 2017.
- Profit for the year amounted to approximately RMB167.2 million, representing an increase of approximately 17.2% from the year ended 31 December 2017.
- Profit attributable to owners of the Company amounted to approximately RMB154.1 million, representing an increase of approximately 17.4% from the year ended 31 December 2017.
- Basic earnings per share amounted to approximately RMB0.18, representing an increase of approximately 12.5% from the year ended 31 December 2017.
- The Board proposed the payment of final dividends of RMB0.06 per share (tax inclusive) for the year ended 31 December 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 consolidated annual results and financial position of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 (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	
		2018	2017
	NOTES	***RMB'000***	*RMB'000*
Revenue	3		
Tap water supply		**235,619**	207,391
Wastewater treatment operating services		**194,081**	151,746
Interest income		**40,310**	35,662
Installation services		**282,953**	215,768
Construction and upgrade services of infrastructure		**465,243**	471,177
Total revenue		**1,218,206**	1,081,744
Cost of sales and services		**(939,810)**	(828,250)
Gross profit		**278,396**	253,494
Other income, expenses, gains and losses, net	5	**30,003**	15,071
Impairment losses, net of reversal		**(1,470)**	(327)
Distribution and selling expenses		**(13,268)**	(12,533)
Administrative expenses		**(69,795)**	(57,901)
Listing expenses		**–**	(7,722)
Finance costs	6	**(37,236)**	(26,913)
Profit before tax	8	**186,630**	163,169
Income tax expense	7	**(19,388)**	(20,480)
Profit for the year		**167,242**	142,689

		Year ended 31 December	
		2018	2017
	NOTES	***RMB'000***	*RMB'000*
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (before tax)		**(818)**	–
Deferred income tax on fair value loss on investments in equity instruments at fair value through other comprehensive income		**204**	–
Other comprehensive expense for the year, net of income tax		**(614)**	–
Total comprehensive income for the year		**166,628**	142,689
Profit for the year attributable to:			
– Owners of the Company		**154,065**	131,298
– Non-controlling interests		**13,177**	11,391
		167,242	142,689
Total comprehensive income for the year attributable to:			
– Owners of the Company		**153,451**	131,298
– Non-controlling interests		**13,177**	11,391
		166,628	142,689
Earnings per share *(RMB)*			
– Basic	10	**0.18**	0.16
– Diluted		**N/A**	0.16

(b) Consolidated Statement of Financial Position

	NOTES	At 31 December 2018 RMB'000	2017 RMB'000
Non-current Assets			
Property, plant and equipment		**39,919**	37,320
Prepaid lease payments		**76,745**	77,778
Investment properties		**12,622**	13,071
Intangible assets	11	**1,947,203**	1,461,240
Goodwill	12	**25,278**	–
Prepayment for prepaid lease payments		**4,000**	4,000
Receivables under service concession arrangements	11	**833,537**	736,408
Available-for-sale investments		**–**	53,630
Equity instruments at fair value through other comprehensive income		**57,273**	–
Deferred tax assets		**21,568**	9,007
		3,018,145	2,392,454
Current Assets			
Inventories		**33,002**	28,016
Receivables under service concession arrangements	11	**17,454**	14,493
Trade receivables	13	**129,228**	100,429
Prepaid lease payments		**1,857**	1,764
Amounts due from customers for contract work		**–**	10,464
Contract assets		**18,606**	–
Prepayments and other receivables		**45,864**	17,121
Bank balances and cash		**547,681**	700,075
		793,692	872,362

	NOTES	At 31 December 2018 RMB'000	2017 RMB'000
Current Liabilities			
Trade payables	14	**43,415**	21,752
Advances from customers and other payables		**356,404**	431,450
Contract liabilities		**176,350**	–
Tax liabilities		**17,912**	12,723
Borrowings		**392,256**	289,574
Provisions		**1,769**	4,902
		988,106	760,401
Net Current (Liabilities) Assets		**(194,414)**	111,961
Total Assets less Current Liabilities		**2,823,731**	2,504,415
Capital and Reserves			
Share capital	15	**859,710**	859,710
Share premium and reserves		**1,020,325**	926,530
Equity attributable to owners of the Company		**1,880,035**	1,786,240
Non-controlling interests		**76,876**	91,676
Total Equity		**1,956,911**	1,877,916
Non-current Liabilities			
Deferred tax liabilities		**16,766**	12,615
Borrowings		**452,178**	313,185
Deferred income – government grants		**168,712**	145,036
Provisions		**229,164**	155,663
		866,820	626,499
		2,823,731	2,504,415

Notes

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

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

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 15 *Revenue form Contracts with Customers*

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

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 and IAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- 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

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 consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018*
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
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 service 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 consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported * *RMB'000*	Adjustment** *RMB'000*	Amount without application of IFRS 15 *RMB'000*
Current Assets			
Amounts due from customers for contract work	–	19,668	19,668
Contract assets	19,668	(19,668)	–
Current Liabilities			
Advances from customers and other payables	356,404	176,350	532,754
Contract liabilities	176,350	(176,350)	–

* The amounts in this column are before the adjustments from the application of IFRS 9. As at 31 December 2018, the Group made impairment of RMB1,062,000 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 IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments,* Amendments to IFRS 9 *Prepayment Features with Negative Compensation* 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 contract 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 under ECL model) 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 IAS 39 *Financial Instruments: Recognition and Measurement* ("**IAS 39**").

Summary of effects arising from initial application of IFRS 9

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

	Note	Available-for-sale	Equity instruments at fair value through other comprehensive income ("FVTOCI")	Deferred tax assets	FVTOCI reserve	Contract assets
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 other comprehensive income ("**OCI**") for the fair value changes of all its equity investments previously classified as available-for-sale, being unquoted equity investments of RMB53,630,000 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, these unquoted equity investments were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gain of RMB4,461,000 relating to these unquoted equity investments previously carried at cost less impairment and RMB3,346,000 (such fair value gain 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

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under IAS 39, contract assets in respect of installation services and trade receivables in respect of wastewater treatment services and installation services have been assessed individually based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables of the customers and adjusted for forward-looking information that is available without undue cost or effort while trade receivables in respect of tap water supply are grouped because they are characterised as a large number of customers with insignificant amounts and similar credit risk and are assessed based on customers' ageing and historical observed default rates over the expected life of trade receivables of the customers and adjusted for forward-looking information that is available without undue cost or effort. The contract assets in respect of installation services relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables in respect of installation services for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets in respect of installation services on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables, bank balances and receivables under concession service arrangements, are individually assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

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

3. REVENUE

Disaggregation of revenue from contracts with customers

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Type of services		
Tap water supply		
– Tap water	**235,619**	207,391
– Installation services	**282,953**	215,768
– Construction and upgrade services of tap water supply infrastructure	**357,108**	452,156
	875,680	875,315
Wastewater treatment		
– Operating services	**194,081**	151,746
– Construction and upgrade services of wastewater treatment infrastructure	**108,135**	19,021
	302,216	170,767
Revenue from contracts with customers	**1,177,896**	1,046,082
Wastewater treatment		
– Interest income on receivables under service concession arrangements	**40,310**	35,662
Revenue	**1,218,206**	1,081,744
Timing of revenue recognition		
At a point in time	**429,700**	359,137
Over time	**748,196**	686,945
	1,177,896	1,046,082
Type of customer		
Government	**662,865**	622,923
Non-government	**515,031**	423,159
	1,177,896	1,046,082

The Group's above revenue are 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 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, installation, related construction and upgrade services

- Wastewater treatment – provision of wastewater treatment services and related construction and upgrade services

The tap water supply segment includes the Company and its certain subsidiaries mainly providing tap water supply, installation, related construction and upgrade 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, they have similar economic characteristics and provide tap water supply, installation, related construction and upgrade 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	
	2018	2017
	RMB'000	*RMB'000*
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**235,619**	207,391
– Installation services	**282,953**	215,768
– Construction and upgrade services of tap water supply infrastructure	**357,108**	452,156
– Inter-segment sales*		
– Tap water	**413**	408
Wastewater treatment		
– From external customers		
– Operating service	**194,081**	151,746
– Interest income on receivables under service concession arrangements	**40,310**	35,662
– Construction and upgrade services of wastewater treatment infrastructure	**108,135**	19,021
Elimination*	**(413)**	(408)
Revenue	**1,218,206**	1,081,744
Segment results		
– Tap water supply**	**94,834**	73,059
– Wastewater treatment	**72,408**	77,352
Unallocated expenses	**–**	(7,722)
Profit after tax	**167,242**	142,689

* Inter-segment sales for the years ended 31 December 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 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment assets		
– Tap water supply	**2,543,970**	2,114,395
– Wastewater treatment	**1,267,867**	1,150,461
Elimination	**–**	(40)
Consolidated total assets	**3,811,837**	3,264,816
Segment liabilities		
– Tap water supply	**1,281,946**	881,958
– Wastewater treatment	**572,980**	504,982
Elimination	**–**	(40)
Consolidated total liabilities	**1,854,926**	1,386,900

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Value-added-tax ("**VAT**") refunds *(Note (a))*	**14,753**	17,815
Deferred revenue in respect of government grants recognised	**13,832**	7,233
Bank interest income	**4,329**	2,342
Late charges on tap water users	**3,167**	2,422
Rental income less outgoings	**663**	864
Commission income on garbage fees collected for government bureau	**300**	262
Gains on disposal of property, plant and equipment, net	**–**	17
Sewage charges	**(131)**	(116)
Donations	**(183)**	(264)
Foreign exchange losses, net	**(9,684)**	(17,581)
Others *(Note (b))*	**2,957**	2,077
	30,003	15,071

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 or loss on sale of sanitary ware, other equipment and materials, etc.

6. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowings	**30,549**	23,231
Interest on other borrowings	**3,085**	2,438
Unwinding of the discount	**7,291**	5,427
	40,925	31,096
Less: Amount capitalised in qualified assets	**(3,689)**	(4,183)
	37,236	26,913

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current year	**40,396**	24,959
Overprovision in prior year	**(609)**	(1,569)
Current tax	**39,787**	23,390
Deferred tax	**(20,399)**	(2,910)
Total income tax recognised in profit or loss	**19,388**	20,480

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 2017 and 2018
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ("**Beijiao Water**")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) ("**Heijiang Water**")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) ("**Jiangnan Water**")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) ("**Naxi Water**")*	15%	Years ended 31 December 2017 and 2018
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("**Nanjiao Water**")*	15%	Years ended 31 December 2017 and 2018
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) ("**Sitong Engineering**")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("**Xinglu Wastewater Treatment**")*/**	Nil or 15%	Years ended 31 December 2017 and 2018
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("**Sitong Design**") *	15%	Years ended 31 December 2017 and 2018
瀘州市興合水環境治理有限公司 ("Luzhou Xinghe Water Governance Co., Ltd.") ("**Xinghe Water**") *	15%	Period ended 31 December 2018
威遠清溪水務有限公司 ("Weiyuan Qingxi Water Co., Ltd.") ("**Qingxi Water**") *	15%	Year ended 31 December 2018
威遠城市供排水安裝工程有限公司 ("Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.") ("**Weiyuan Installation Company**") *	15%	Year ended 31 December 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. During the years ended 31 December 2017 and 2018, 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 period/years ended 31 December 2017 and 2018 accounted for more than 70% of their total revenue in these period/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 2017 and 2018.

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**6,030**	5,160
Depreciation of investment properties	**449**	449
Amortisation of intangible assets	**74,590**	43,081
Amortisation of prepaid lease payments	**1,731**	1,701
Total depreciation and amortisation	**82,800**	50,391
Auditors' remuneration	**3,630**	2,100
Write-down of inventories	**2**	456
Staff costs (including the Directors' and supervisors' remuneration:		
– Salaries, wages and welfare	**121,511**	98,650
– Retirement benefit schemes contributions	**20,544**	18,024
Total staff costs	**142,055**	116,674

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
and after crediting:		
Gross rental income from investment properties	**1,124**	1,323
Less: Direct operating expenses incurred for investment properties that generated rental income	**(461)**	(459)
	663	864

9. DIVIDENDS

A final dividend of RMB68,777,000 or RMB0.08 (2017: Nil) per share (tax inclusive) in respect of the year ended 31 December 2017 was declared and fully paid to the shareholders of the Company during the year ended 31 December 2018.

Subsequent to the end of the Reporting Period, a final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018 (2017: final dividend of RMB68,777,000 or RMB0.08 per share (tax inclusive) in respect of the year ended 31 December 2017) has been proposed by the Directors 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	
	2018	2017
Profit for the year attributable to the owners of the Company *(RMB'000)*	**154,065**	131,298
Weighted average number of ordinary shares issued *('000)*	**859,710**	812,065

During the year ended 31 December 2017, the computation of diluted earnings per share did not assume the exercise of the over-allotment option granted by the Company in relation to the Global Offering (as defined in note 15(a)) 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 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.

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 2017	1,151,207
Additions	482,177
At 31 December 2017	1,633,384
Acquisition of a subsidiary	182,788
Contribution by non-controlling equity owners of a subsidiary	3,962
Additions	373,803
At 31 December 2018	**2,193,937**
Accumulated amortisation	
At 1 January 2017	(129,063)
Amortisation for the year	(43,081)
At 31 December 2017	(172,144)
Amortisation for the year	(74,590)
At 31 December 2018	**(246,734)**
Carrying amounts	
At 31 December 2018	**1,947,203**
At 31 December 2017	1,461,240

The Group's receivables under service concession arrangements arise 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 and are as follows:

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current portion	**833,537**	736,408
Current portion	**17,454**	14,493
	850,991	750,901
Expected collection schedule is analysed as follows:		
Within one year	**17,454**	14,493
More than one year, but not exceeding two years	**19,840**	16,590
More than two years, but not exceeding three years	**21,360**	18,079
More than three years, but not exceeding four years	**22,379**	18,904
More than four years, but not exceeding five years	**23,449**	19,770
Over five years	**746,509**	663,065
	850,991	750,901

The effective interest rates for the above financial assets fall within the range from 3.51% to 6.22% (2017: 3.51% to 6.00%) per annum.

12. GOODWILL

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	–
Arising on acquisition of subsidiaries	25,278
At 31 December 2018	**25,278**

13. TRADE RECEIVABLES

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**131,889**	102,033
Less: Allowance for credit losses	**(2,661)**	(1,604)
	129,228	100,429

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.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB131,889,000 and RMB102,033,000 respectively.

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

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**77,388**	78,613
Between 4 months and 6 months	**20,742**	17,300
Between 7 months and 12 months	**20,201**	1,042
Over 1 year	**10,897**	3,474
	129,228	100,429

14. TRADE PAYABLES

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

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**33,344**	18,694
Between 7 months and 12 months	**2,426**	811
Over 1 year	**7,645**	2,247
	43,415	21,752

The credit period on purchases are generally within 6 months.

15. SHARE CAPITAL

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**859,710**	664,310
Issue of new ordinary shares *(Note (a))*	**–**	195,400
At end of the year	**859,710**	859,710
	'000	'000
Shares of RMB1 each		
– Domestic shares *(Note (b))*	**644,770**	644,770
– H shares	**214,940**	214,940
	859,710	859,710

Notes:

(a) 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 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 HK$229,325,000 (equivalent to RMB203,595,000), before issuing expenses of RMB33,837,000, were credited to the Company's capital reserves.

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Industry Overview

The 19th National Congress clearly proposed the strategic development plan of "acceleration of reform of ecological civilization for building a beautiful China", which led the development of environmental protection and water treatment industry to enter into new opportunity stage. The Opinions regarding Comprehensive 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戰的意見》) issued by China in June 2018, further released the needs of environmental governance. It also shows that the eco-environmental protection and pollution prevention work has entered into a crucial stage. With continuous deepening of the eco-environment treatment works such as green development of Yangtze River Economic Belt, treatment of black odor water, solid waste and hazardous waste field and rural wastewater treatment had become hot spots in the environmental protection industry, giving rise to prosperity in environmental industry market. In particular, in October 2018, the Sichuan Province had issued the "Sichuan Province Implementation Measures on Treating and Diligently Fighting City Black and Order Water" (四川省打好城市黑臭水體治理攻堅戰實施方案). According to such measures, by the end of 2020, the portion of black odor water treatment in built-up areas of prefecture-level cities in Sichuan Province will reach over 90%, which will bring new opportunities and development for the water treatment and environmental protection industry in Sichuan Province in terms of comprehensive treatment projects of river basins and rural water environment management.

In terms of the size of productivity and the rate of acceleration, urban water supply facilities construction in China have approached to saturation and entered a state of maturity. In recent years, the total urban water supply of China had basically maintained a growth rate of 2%-3%. The sewage treatment industry is under continuous development, and the growth rate basically stood around 5%-6%. The reclaimed water utilization business is still in the lead period, and the daily production capacity and consumption of reclaimed water continue to grow. With the promotion of policies and increased investment in environmental protection, there is a large demand for rural water management and river basin water treatment.

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》) issued by the National Development and Reform Commission of the PRC in July 2018 brought new development benefits to environmental protection and water enterprises. Such opinions mainly focuses 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, 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 2019, the Company will define its strategic position as "standing firm in the primary business of water supply, stretching its businesses in the industry chair expanding and the environmental protection business, and building the core technology". Highlighting the primary business while expanding multiple businesses, the Company will uphold the mission of innovation, strengthen internal control management, uplifting the professional operation capability, improve overall profitability and maintained sustainable development ability.

The Company will achieve diversified development by following China's environmental protection strategies and rural revitalization strategies, focusing on comprehensive sewage treatment. It will develop sewage treatment in rural areas and villages; optimize management and operation model to generate a replicable sewage treatment model in towns and villages; adopt the way of "using reserves to bring improvement and using key points to lead all areas" to realize a deep and excellent development of businesses in different areas; make breakthroughs in the traditional industry development approaches, actively form a cooperative community with the cooperative partners and start deep cooperation on the installation, design, project construction, etc. to integrate the resources and expand the Company's industry chain; step foot in the environmental protection industry regarding starting treatment works on the black odor water and water environment; conduct technology innovations, continuing to conduct research and expansion on intelligence water, water environment treatment and other environmental technology, thereby forging the Company's core environmental protection technology to promote the Company's development with high-speed and high-quality and become the "most trust-worthy comprehensive water resources service provider".

(III) Business Review

The Company is an integrated municipal water service provider in Sichuan Province, principally engaged in two segmental businesses; tap water supply and wastewater treatment. We adopt project models of build-own-operate ("**BOO**") and transfer-own-operate ("**TOO**") in the course of business, where we and local governments enter into concession agreements for a normal period of 30 years. The Company mainly engages business in Luzhou area, Weiyuan area in Neijiang City, etc.

As at the end of the Reporting Period, we operated nine tap water plants and nine wastewater treatment plants with a total treatment capacity of approximately 799,500 tons per day.

Tap Water Project

As at the end of the Reporting Period, the Group owned nine tap water plants with a daily supply capacity of approximately 498,500 tons representing an increase of one tap water plant and an increase of approximately 73,000 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 83.0%. Benefiting from the acquisition of Qingxi Water, the Group has three additional water plants. Meanwhile, from the perspective of economical efficiency of operation, the Company closed two small scale water plants with aging facilities, low efficiency and high operating cost. Such water supply area of these 2 old tap water plants is covered by that of the Qiancao Supply Plant II.

During the Reporting Period, the total sales of water amounted to approximately 111.2 million tons, representing an increase of 17.1% as compared with approximately 95.0 million tons for the year ended 31 December 2017. The increase was mainly due to the expansion of the city, the launch of the project of "all areas water supply(全域供水)" and "service sector moving(三產移產)" and the business expansion brought by the acquisition of Qingxi Water.

Wastewater Treatment Project

As at the end of the Reporting Period, the Company owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 301,000 tons in aggregate and the average utilisation rate of wastewater treatment plants stood at 73.2%.

During the Reporting Period, our total wastewater treatment capacity amounted to approximately 87.3 million tons, representing an increase of 44.8% as compared with the total actual wastewater treatment capacity of approximately 60.3 million tons for the year ended 31 December 2017. Our total capacity of wastewater treatment with charges amounted to approximately 102.4 million tons, representing an increase of 22.8% as compared with approximately 83.4 million tons for the year ended 31 December 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, and due to the increase in wastewater treatment capacity resulting from the completion of Ya'erdang capacity expansion project.

(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 12.6% from approximately RMB1,081.7 million for the year ended 31 December 2017 to approximately RMB1,218.2 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 13.6% from approximately RMB207.4 million for the year ended 31 December 2017 to approximately RMB235.6 million for the Reporting Period. The increase was primarily due to a growth in the sales volume of tap water from approximately 95.0 million tons for the year ended 31 December 2017 to approximately 111.2 million tons during the Reporting Period. Revenue generated from sales of tap water accounted for 19.2% and 19.3% of our total revenue for the year ended 31 December 2017 and 2018, respectively.

1.1.1.2 Installation services

Revenue of the Group generated from installation services increased by 31.1% from approximately RMB215.8 million for the year ended 31 December 2017 to approximately RMB283.0 million during the Reporting Period. The increase was mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation services accounted for 19.9% and 23.2% of our total revenue for the year ended 31 December 2017 and 2018, respectively.

1.1.1.3 Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from installation services decreased by 21.0% from approximately RMB452.2 million for the year ended 31 December 2017 to approximately RMB357.1 million during the Reporting Period. The decrease was mainly due to the completion and commencement of operation of Qiancao Supply Plant II in December 2017, and there is no similar comparable project under construction during the Reporting Period, leading to the decrease of the infrastructure construction and upgrade projects.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 27.9% from approximately RMB151.7 million for the year ended 31 December 2017 to approximately RMB194.1 million during the Reporting Period. The increase was primarily due to the increase in the wastewater treatment capacity and increase in demand for wastewater treatment. The capacity of wastewater treatment with charges also increased as compared with the same period last year. The total treatment volume of charged wastewater was 83.4 million tons and 102.4 million tons for the year ended 31 December 2017 and 2018, respectively. Revenue generated from wastewater treatment operation accounted for 14.0% and 15.9% of our total revenue for the year ended 31 December 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 increased by 12.9% from approximately RMB35.7 million for the year ended 31 December 2017 to approximately RMB40.3 million during the Reporting Period. The increase was mainly due to the completion and commencement of operation of Ya'erdang capacity expansion project in August 2018, meanwhile the Hejiang Wastewater Treatment Plant II has been added in September 2018, with charging right for certain wastewater treatment, leading to an increase of income interest on 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 by 468.9% from approximately RMB19.0 million for the year ended 31 December 2017 to approximately RMB108.1 million during the Reporting Period. The increase was mainly due to the construction of the Ya'erdang capacity expansion during the Reporting Period.

1.2 Cost of Sales and Services

The Group's cost of sales and services increased by 13.5% from approximately RMB828.3 million for the year ended 31 December 2017 to approximately RMB939.8 million during the Reporting Period.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

The Group's cost of sales of tap water increased by 14.2% from approximately RMB182.9million for the year ended 31 December 2017 to approximately RMB208.8 million during the Reporting Period.

The increase was primarily due to commencement of operation of Qiancao Supply Plant II in December 2017, leading to significant increase in infrastructure amortization, provisions and labor cost during the Reporting Period. Cost of sales and services from tap water supply operations accounted for 22.1% and 22.2% of our total cost of sales and services for the year ended 31 December 2017 and 2018, respectively.

1.2.1.2 Installation services

The Group's cost of sales and services associated with installation services increased by 47.2% from approximately RMB83.7 million for the year ended 31 December 2017 to approximately RMB123.2 million for the Reporting Period. The increase was mainly due to the increase of installation service operation and "service sector moving (三產移產)" during the Reporting Period, leading to the increase in costs of installation labor, construction and raw materials.

1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of construction and upgrade services on tap water supply infrastructure decreased by 21.1% from approximately RMB451.2 million for the year ended 31 December 2017 to approximately RMB356.1 million for the Reporting Period. The decrease was mainly due to the decrease in the amount of construction and upgrade services for 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 57.0% from approximately RMB91.5 million for the year ended 31 December 2017 to RMB143.7 million for the Reporting Period. The increase was primarily attributable to the completion and the commencement of operation of Ya'erdang capacity expansion in August 2018, which resulting in a significant increase in infrastructure amortization, provisions, labor costs and power charge during the Reporting Period and the increase in the cost of pharmacy and cleaning and transportation fees for sludge as a result of stricter environmental protection requirements. Cost of sales and services from wastewater treatment operating services accounted for 11.0% and 15.3% of our total cost of sales and services for the year ended 31 December 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 services on wastewater treatment infrastructure increased by 468.4% from approximately RMB19.0 for the year ended 31 December 2017 to approximately RMB108.0 million for the Reporting Period. The increase was mainly due to the construction of the Ya'erdang capacity expansion project during the Reporting Period.

1.3 Gross Profit and Gross Profit Margin

As a result of above, our gross profit slightly increased by 9.8% from approximately RMB253.5 million for the year ended 31 December 2017 to approximately RMB278.4 million during the Reporting Period. Gross profit margin decreased from 23.4% for the year ended 31 December 2017 to 22.9% 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 increased by 9.4% from approximately RMB24.5 million for the year ended 31 December 2017 to approximately RMB26.8 million during the Reporting Period. The corresponding gross profit margin decreased from 11.8% for the year ended 31 December 2017 to 11.4% during the Reporting Period, which was primarily due to commencement of operation of the Qiancao Supply Plant II in December 2017, leading to the increase in amortization of the infrastructure, in provisions and labor costs during the Reporting Period

1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 21.0% from approximately RMB132.1 million for the year ended 31 December 2017 to approximately RMB159.8 million during the Reporting Period. The corresponding gross profit margin decreased from 61.2% for the year ended 31 December 2017 to 56.5% during the Reporting Period, which was mainly due to the gross profit of "service sector moving (三產移產)" water meters renovation projects and secondary water supply unified construction and management projects are generally lower than the gross profit of the general water meters installation projects.

1.3.1.3 Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade services on tap water supply infrastructure increased from approximately RMB995,000 for the year ended 31 December 2017 to approximately RMB1,036,000 during the Reporting Period, the gross profit margin increased from 0.2% for the year end 31 December 2017 to 0.3% during the Reporting Period. The increase was primarily due to the construction of the overall district safety water supply project and pipe network construction project in Jiangyang District was conducted during the Reporting Period.

1.3.2 Waste water treatment

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services decreased by 16.6% from approximately RMB60.3 million for the year ended 31 December 2017 to approximately RMB50.3 million during the Reporting Period. The corresponding gross profit margin decreased from 39.7% for the year ended 31 December 2017 to 25.9% during the Reporting Period. The decrease in gross profit margin was mainly attributable to the higher environmental requirements, the increased medicament cost and the sludge cleaning and transportation fee, and the completion of the Ya'erdang capacity expansion and upgrade project and commencement of operation in August 2018 resulting in a significant increase in the amortization of the infrastructures and provisions.

1.3.2.2 Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on waste water treatment infrastructure increased from approximately RMB11,000 for the year ended 31 December 2017 to approximately RMB116,000 during the Reporting Period. The increase was mainly due to the construction of Ya'erdang capacity expansion and upgrade project was conducted 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 and impairment loss (net of reversal)*

The Group's other income, expenses, gains and losses, net and impairment loss (net of reversal) increased from approximately RMB14.7 million for the year ended 31 December 2017 to approximately RMB28.5 million during the Reporting Period.

The increase is mainly because the sales income of the secondary water supply equipment and the sales of raw material were increased comparing with the same period in 2017. In addition, as the balance of the Group's listed funds raised from the initial global offering had (in Hong Kong dollars) decreased, the exchange loss decreased from approximately RMB17.6 million in 2017 to approximately RMB9.7 million during the Reporting Period.

1.5 *Distribution and Selling Expenses*

The Group's distribution and selling expenses increased by 6.4% from approximately RMB12.5 million for the year ended 31 December 2017 to approximately RMB13.3 million during the Reporting Period. The increase was mainly due to newly consolidation of the staff salary of Qingxi Water and Weiyuan Installation Company and the growth in staff salary during the Reporting Period.

1.6 *Administrative Expenses*

The Group's administrative expenses increased by 20.6% from approximately RMB57.9 million for the year ended 31 December 2017 to approximately RMB69.8 million during the Reporting Period, which was mainly due to newly consolidation of the staff salary of Qingxi Water and Weiyuan Installation Company and the growth of staff salary and the rise of administrative expenses because of the acquisition of Qingxi Water and Weiyuan Installation Company.

1.7 *Finance Costs*

The Group's finance costs increased by 38.3% from approximately RMB26.9 million for the year ended 31 December 2017 to approximately RMB37.2 million during the Reporting Period, which was mainly due to the increase in bank borrowings during the Reporting Period.

1.8 Income Tax Expense

The income tax expenses decreased from approximately RMB20.5 million for the year ended 31 December 2017 to approximately RMB19.4 million during the Reporting Period. For the year ended 31 December 2017 and 2018, the actual tax rates of the Group were 12.6% and 10.4%, respectively, which is mainly attribute to difference between the applicable tax rate in terms of income tax liabilities reversal and the current income tax rate is recognized as the corresponding taxable temporary difference.

1.9 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group increased by 17.2% from approximately RMB142.7 million for the year ended 31 December 2017 to approximately RMB167.2 million during the Reporting Period. The profit margin after tax increased from 13.2% for the year ended 31 December 2017 to 13.7% during the Reporting Period.

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

2.1 Property, Plant and Equipment

The property, plant and equipment of the Group was approximately RMB37.3 million and RMB39.9 million as at 31 December 2017 and 2018, respectively, which consisted primarily of office buildings, machines and office equipment, office furniture and fixtures and vehicles. The increase mainly attributes to the increase of non-infrastructures related machines, office buildings and the vehicles. In addition, the Group acquired Qingxi Water and Weiyuan Installation Company during the Reporting Period, leading to the increase of the official buildings, machines, official equipment, fixed installation and vehicles of Qingxi Water and Weiyuan Installation Company when comparing with 31 December 2017.

2.2 *Intangible Assets*

Intangible assets of the Group were approximately RMB1,461.2 million and RMB1,947.2 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to the completion of the construction and upgrade work, such as the overall district water supply project in Jiangyang District and the capacity expansion and upgrade project of Ya'erdang. In addition, the Group acquired Qingxi Water during the Reporting Period, leading to the addition of Qingxi Water's intangible assets when comparing with 31 December 2017.

2.3 *Receivables under Service Concession Arrangements*

The receivables under service concession arrangements of the Group were approximately RMB750.9 million and RMB851.0 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to completion of the capacity expansion and upgrade project of Ya'erdang and the addition of and Hejiang Wastewater Treatment Plant II during the Reporting Period, leading to the increase in receivables under service concession arrangements.

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 approximately RMB28.0 million and RMB33.0 million as at 31 December 2017 and 2018, respectively. The increase was mainly because "service sector moving (三產移產)" and "overall district water supply (全域供水)" projects of the Group increased during the Reporting Period, which expanded the installation business of water meters, and the Group reserved a larger 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:

	For the year ended 31 December	
	2018	2017
Average inventory turnover days (1)	**23**	23

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 of the period (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) 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 waste water 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 remained unchanged at 23 days.

2.5 *Trade Receivables*

Our trade receivables were approximately RMB100.4 million and RMB129.2 million as at 31 December 2017 and 2018, respectively.

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

	For the year ended 31 December	
	2018	2017
Average trade receivables turnover days(1)	**56**	55

Note:

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue of the period (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) 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, installation services in tap water supply operations and wastewater treatment fee in wastewater treatment operations. We believe excluding of revenue from our construction and upgrade services of infrastructure is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 55 days for the year ended 31 December 2017 to 56 days during the Reporting Period, which was mainly due to the acquisition of Qingxi Water and the temporary unsettlement of water charge by Water Resources Bureau, while we practically strengthened our management policy of recycled trading receivables.

2.6 Trade Payables

Our trade payables were approximately RMB21.8 million and RMB43.4 million as at 31 December 2017 and 2018, respectively.

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

	For the year ended 31 December	
	2018	2017
Average trade payables turnover days(1)	**25**	16

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 services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation services and waste water operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days increased from 16 days for the year ended 31 December 2017 to 25 days during the Reporting Period. The increase was mainly because the Group purchased a large quantity of materials of far passing water meters and pipe network 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	
	2018	2017
Average trade payables and construction payables turnover days[(1)]	**101**	95

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 95 days for the year ended 31 December 2017 to 101 days for the Reporting Period, which was mainly due to the increase in construction cost of various tap water supply projects, including Naxi water plant (phase I) and water treatment projects, including capacity expansion and upgrade project of Ya'erdang and the Erdaoxi phase III project.

2.8 Deferred Income – government grants

Deferred income of the Group was approximately RMB145.0 million and RMB168.7 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to the receipt of grants supplied by the government for Ya'erdang capacity expansion and upgrade project, as well as the construction of Erdaoxi phase III project during the Reporting Period.

3. Liquidity and Financial Resources

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

As at the end of Reporting Period, the bank balances and cash of the Group amounted to approximately RMB547.7 million (at the end of 2017: RMB700.1 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB844.4 million (at the end of 2017: RMB602.8 million), including bank and other borrowings, of which, approximately 73.5% of our bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the gearing ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was 15.2% (at the end of 2017: -5.2%).

III. OTHER INFORMATION

(I) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 849 employees (at the end of 2017: 775). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB142.1 million (at the end of 2017: RMB116.7 million). The remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continue to adjust the new model of salary packing system of the associates of the Company.

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, 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$393.2 million of the proceeds from the initial public offering had been used by the Group in the way disclosed in the prospectus of the Company dated 21 March 2017 and HK$7.6 million of the proceeds had not yet been used.

(III) Major Acquisitions and Disposals

On 21 September 2018, the Company acquired 60% equity interest in Qingxi Water for a total consideration of RMB37.57 million, and acquired 60% equity interest in Weiyuan Installation Company for a total consideration of RMB17.59 million. After the completion of such equity transfers, two companies became the non-wholly owned subsidiaries of the Company. Please refer to the announcement issued by the Company on 21 September 2018 for details.

On 21 December 2018, the Company acquired 52.11%, 10.07%, 50.04%, 23.36%, 20.62% and 32.44% equity interest in Nanjiao Water, Beijiao Water, Jiangnan Water, Naxi Water, Sitong Engineering and Sitong Design, respectively for a total consideration of RMB68.62 million, all of which are non-wholly owned subsidiaries of the Company. Upon the completion of such equity transfers, Nanjiao Water, Beijiao Water and Sitong Design remained as non-wholly owned subsidiaries of the Company, while Jiangnan Water, Naxi Water and Sitong Engineering became wholly-owned subsidiaries of the Company. Please refer to the announcement issued on 21 December 2018 for details.

On 28 December 2018, the Company acquired 1.63% and 1.57% equity interest in Nanjiao Water and Beijiao Water respectively for a total consideration of RMB2.51 million. Upon the completion of such equity transfers, Nanjiao Water and Beijiao Water remained as non-wholly owned subsidiaries of the Company. Please refer to the announcement issued on 28 December 2018 for details.

Save as disclosed above, during the Reporting Period, the Company has no other plans for major investments or acquisition of capital assets in the future.

(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 operating concessions for overall district water supply project in Jiangyang District, the land-use rights of the Erdaoxi wastewater treatment plant owned by our non-wholly owned subsidiary Wastewater Treatment, charging right for certain wastewater treatment fees and the properties of Qingxi Water acquired during the Reporting Period. 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 its 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 in Hong Kong dollar, and recognised net foreign exchange losses of RMB9.7 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 Investments

As at the end of the Reporting Period, the equity instruments held by the Group amounted to RMB57.27 million (2017: RMB53.63 million), which mainly represents the Group's equity investment of 17.50% equity interest in 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.

(VIII) Events after the Reporting Period

On 28 January 2019, the Company entered into a finance lease agreement, pursuant to which (i) the lessor has agreed to purchase the long-term assets (certain balancing tanks, clean water pools, water pipelines and pipe networks located in Luzhou City) from the Company; (ii) the lessor has agreed to lease the assets back to the Company for a term of 60 months commencing from the lease date; (iii) the total principal lease amount is RMB200,000,000; and (iv) an estimated total interest of RMB14,063,000 with an adjustable floating interest rate of 90% of the benchmark interest rate to be charged for RMB term loans of between three years to five years as adopted by the People's Bank of China. On 29 January 2019, the Company has received principal lease amount of RMB150,000,000 of the finance arrangement.

On 27 February 2019, the Company separately entered into an equity transfer agreement with Luzhou Xingxin Water Environmental Governance Co. Ltd. (瀘州市興新水環境治理有限公司) and Luzhou Tianrun Industrial Development Investment Fund Partnership (Limited Partnership), (瀘州市天潤產業發展投資基金合伙企業(有限合夥)), pursuant to which, the Company agreed to acquire an aggregate of 92.50% equity interest in Luzhou Fanxing Environmental Protection and Development Co. Ltd. (瀘州市繁星環保發展有限公司, "**Fanxing Company**") at a total consideration of RMB117.00 million. Upon completion of such equity transfer, Fanxing Company will become a non-wholly owned subsidiary of the Company and its results will be consolidated into the consolidated financial statements of the Group. Please refer to the announcement issued by the company on 27 February, 2019 for further details.

(IX) Dividends for the Year

The Board proposed to distribute final dividends of RMB0.06 per share (tax inclusive) for the year ended 31 December 2018 (2017: RMB0.08 (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Wednesday, 10 July 2019 (the "**Record Date**") (subject to the approval of Shareholders on the annual general meeting to be held on Friday, 14 June 2019 (the "**Annual General Meeting**"), with the total amount being approximately RMB51,583,000. Once approved, the final dividends will be paid on or before Tuesday, 30 July 2019.

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 those 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, 15 May 2019 to Friday, 14 June 2019 (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, 15 May 2019. 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 Shops 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, 14 May 2019.

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, 5 July 2019 to Wednesday, 10 July 2019 (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 Wednesday, 10 July 2019. 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 Shops 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, 4 July 2019.

(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.

(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, Supervisors and Chief Executives' Information

During the Reporting Period, there were no information changes in the Directors, supervisors and chief executives of the Company.

(XV) Compliance with the Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees of the Group.

The Company had adopted the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, (the "**Corporate Governance Code**"), and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

According to code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the articles of association of the Company, the terms of Directors (including non-executive Director and independent Director) are three years, but extendible by election. The term of the first session of the Board, the Board of supervisors and the senior management has expired in December 2018. As (among others) part of the Directors were required to be nominated by the Shareholders, while the nomination system has not been completed and some of the Director candidates are still under consideration, the Company was unable to complete the transition before the end of the first session. Before the completion of transition, the existing Directors, the supervisors and senior management of the Company will continue to perform their duties.

During the Reporting Period, save for code provision A.4.2, the Company has been complied with all code provisions under the Corporate Governance Code.

(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 Company has made specific inquiries to all Directors and supervisors, and all Directors and supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period.

(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 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.

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 2018 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 2018 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 2019

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*