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 2019

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2019:

- Revenue amounted to approximately RMB828.4 million, representing an increase of approximately 45.9% over the same period of last year.
- Profit for the period amounted to approximately RMB99.5 million, representing an increase of approximately 43.8% over the same period of last year.
- Profit attributable to owners of the Company amounted to approximately RMB93.6 million, representing an increase of approximately 43.2% over the same period of last year.
- Basic earnings per share amounted to approximately RMB0.11, representing an increase of approximately 37.5% 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 2019.

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 2019 (the "**Reporting Period**") together with comparative figures for the same period in 2018 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 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	3	**828,407**	567,809
Cost of sales and services		**(658,394)**	(443,231)
Gross profit		**170,013**	124,578
Other income, expenses, gains and losses, net	5	**16,310**	4,201
Impairment losses under expected credit loss model, net of reversal		**(937)**	(3,045)
Distribution and selling expenses		**(8,725)**	(5,639)
Administrative expenses		**(33,395)**	(23,993)
Finance costs	6	**(29,831)**	(16,786)
Profit before tax		**113,435**	79,316
Income tax expense	7	**(13,982)**	(10,132)
Profit for the period		**99,453**	69,184

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(unaudited)**	 2018 *RMB'000* (unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on investments in equity instruments at fair value through other comprehensive income (before tax)		**267**	1,494
Deferred income tax on fair value gain on investments in equity instruments at fair value through other comprehensive income		**(67)**	(374)
Other comprehensive income for the period, net of tax		**200**	1,120
Total comprehensive income for the period		**99,653**	70,304
Profit for the period attributable to:			
– Owners of the Company		**93,611**	65,380
– Non-controlling interests		**5,842**	3,804
		99,453	69,184
Total comprehensive income for the period attributable to:			
– Owners of the Company		**93,811**	66,500
– Non-controlling interests		**5,842**	3,804
		99,653	70,304
Earnings per share *(RMB)*	9		
– Basic		**0.11**	0.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	At 30 June 2019 RMB'000 (unaudited)	At 31 December 2018 RMB'000 (audited)
Non-Current Assets			
Property, plant and equipment		**40,233**	39,919
Right-of-use assets		**77,740**	–
Contract assets		**137,197**	–
Prepaid lease payments		**–**	76,745
Investment properties		**12,398**	12,622
Intangible assets		**2,189,893**	1,947,203
Goodwill		**25,278**	25,278
Prepayments		**4,000**	4,000
Receivables under service concession arrangements		**1,063,084**	833,537
Equity instruments at fair value through other comprehensive income		**57,540**	57,273
Deferred tax assets		**26,177**	21,568
		3,633,540	3,018,145
Current Assets			
Inventories		**56,912**	33,002
Receivables under service concession arrangements		**20,690**	17,454
Trade receivables	10	**187,930**	129,228
Contract assets		**18,236**	18,606
Prepaid lease payments		**–**	1,857
Prepayments and other receivables		**63,310**	45,864
Bank balances and cash		**1,012,377**	547,681
		1,359,455	793,692

	Notes	At **30 June** **2019** ***RMB'000*** **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Current Liabilities			
Trade payables	11	**50,076**	43,415
Other payables		**529,677**	356,404
Lease liabilities		**25**	–
Contract liabilities		**234,068**	176,350
Tax liabilities		**10,889**	17,912
Borrowings		**475,040**	392,256
Provisions		**4,072**	1,769
		1,303,847	988,106
Net Current Assets (Liabilities)		**55,608**	(194,414)
Total Assets Less Current Liabilities		**3,689,148**	2,823,731
Capital and Reserves			
Share capital		**859,710**	859,710
Share premium and reserves		**1,062,553**	1,020,325
Equity attributable to owners of the Company		**1,922,263**	1,880,035
Non-controlling interests		**107,167**	76,876
Total Equity		**2,029,430**	1,956,911
Non-Current Liabilities			
Deferred tax liabilities		**17,781**	16,766
Lease liabilities		**9**	–
Borrowings		**720,477**	452,178
Deferred income – government grants		**164,717**	168,712
Bonds payable		**497,620**	–
Provisions		**259,114**	229,164
		1,659,718	866,820
		3,689,148	2,823,731

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 and amendments to 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 2019 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

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 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRSs 2015–2017 Cycle*

Except as describe below, the application of the new and amendments to IFRSs in the current period had no material impact on the Group's financial positions and performances for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("**IAS 17**"), and the related interpretations.

2.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("**IFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("**IFRS 15**") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

2.2 *Transition and summary of effects arising from initial application of IFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement Contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. There is no material impact at the date of initial application on the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions*, *Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of land and buildings in the People's Republic of China ("**PRC**") was determined on a lease portfolio basis; and

v. used hindsight based on facts and circumstances as at the date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid accrued lease payments by applying IFRS 16 C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.5%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**116**
Lease liabilities discounted at relevant incremental borrowing rates	**112**
Less: Recognised exemption-short-term leases	**65**
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	**47**
Analysed as:	
Current	**25**
Non-current	**22**
	47

The carrying amount of right-of-use assets as at 1 January 2019 comprises the followings:

	Note	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		47
Reclassified from prepaid lease payments	(a)	78,602
		78,649
By Class:		
Leasehold lands		78,602
Land and buildings		47
		78,649

Note: (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon the application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,857,000 and RMB76,745,000, respectively, were reclassified to right-of-use assets.

Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. There are no significant impact of adjustment to refundable rental deposits paid.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Application of IFRS 16 as a lessor has had no material impact on the Group's condensed consolidated statement of financial position as at 1 January 2019 and 30 June 2019 and its condensed consolidated statement profit or loss and other comprehensive income and cash flow for the current interim period.

Before the application of IFRS 16, the refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. There is no significant impact of adjustment to refundable rental deposits received.

There was no significant impact of transition to IFRS 16 on retained profits at 1 January 2019.

Sales and leaseback transactions

Upon application of IFRS 16, the Group applies the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, the Group entered into a sale and leaseback transaction in relation to certain tap water supply infrastructure and the transaction does not satisfy the requirements as a sale. Accordingly, the Group accounts for the transfer proceed of RMB193,400,000 as borrowing within the scope of IFRS 9.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under IFRS 16 at 1 January 2019** ***RMB'000***
Non-current Assets				
Prepaid lease payments	a	76,745	(76,745)	**–**
Right-of-use assets	a, b	–	78,649	**78,649**
Current Assets				
Prepaid lease payments	a	1,857	(1,857)	**–**
Current Liabilities				
Lease liabilities	b	–	(25)	**(25)**
Non-current Liabilities				
Lease liabilities	b	–	(22)	**(22)**

Notes:

a. The adjustments are made to reclassify the non-current and current portion of prepaid lease payments to right-of-use assets upon adoption of IFRS 16.

b. The adjustments are made to recognise right-of-use assets and lease liabilities relating to operating leases upon the adoption of IFRS 16.

3. REVENUE

Disaggregation of revenue from contracts with customers.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Types of services		
Tap water supply		
－Tap water	**139,548**	106,310
－Installation services	**124,995**	163,605
－Construction and upgrade services of tap water supply infrastructure	**240,457**	161,944
	505,000	431,859
Wastewater treatment		
– Operating services	**126,300**	78,805
– Construction and upgrade services of wastewater treatment infrastructure	**174,039**	40,596
	300,339	119,401
Revenue from contracts with customers	**805,339**	551,260
Wastewater treatment		
– Interest income	**23,068**	16,549
Revenue	**828,407**	567,809
Timing of revenue recognition		
At a point in time	**265,848**	185,115
Over time	**539,491**	366,145
	805,339	551,260
Type of customer		
Government	**545,919**	282,429
Non-government	**259,420**	268,831
	805,339	551,260

The Group's above revenue were derived from the PRC.

The reconciliation of the revenue from contracts under the amounts is disclosed in note 4.

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, 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 reportable segment:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
—From external customers		
—Tap water	**139,548**	106,310
—Installation services	**124,995**	163,605
—Construction and upgrade services of tap water supply infrastructure	**240,457**	161,944
—Inter-segment sales*		
—Tap water	**80**	159
Wastewater treatment		
—From external customers		
—Operating service	**126,300**	78,805
—Interest income	**23,068**	16,549
—Construction and upgrade services of wastewater treatment infrastructure	**174,039**	40,596
Elimination*	**(80)**	(159)
Revenue	**828,407**	567,809
Segment results		
—Tap water supply**	**47,931**	42,141
—Wastewater treatment	**51,522**	27,043
Profit after tax	**99,453**	69,184

* Inter-segment sales for the six months ended 30 June 2018 and 2019 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. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Segment assets		
—Tap water supply	**3,194,834**	2,543,970
—Wastewater treatment	**1,837,161**	1,267,867
Elimination	**(39,000)**	–
Consolidated total assets	**4,992,995**	3,811,837
Segment liabilities		
—Tap water supply	**2,030,789**	1,281,946
—Wastewater treatment	**971,776**	572,980
Elimination	**(39,000)**	–
Consolidated total liabilities	**2,963,565**	1,854,926

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**3,468**	2,054
Deferred income in respect of government grants recognised	**3,995**	2,646
Value-added-tax ("**VAT**") refunds *(Note (a))*	**4,212**	4,582
Commission income on garbage fees collected for government bureau	**57**	252
Late charges on tap water users	**1,802**	1,525
Rental income less outgoings	**548**	311
Losses on disposal of property, plant and equipment, net	**(11)**	(13)
Sewage charges	**–**	(131)
Foreign exchange losses, net	**(207)**	(8,321)
Others *(Note (b))*	**2,446**	1,296
	16,310	4,201

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, other equipment and materials, etc.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank borrowings	**20,303**	13,364
Interest on other borrowings	**5,800**	476
Unwinding of the discount	**5,099**	3,934
Interest on lease liabilities	**1**	–
Interest on bonds payable	**5,062**	–
	36,265	17,774
Less: Amount capitalised in qualified assets	**(6,434)**	(988)
	29,831	16,786

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**19,538**	16,113
Deferred tax	**(5,556)**	(5,981)
Total income tax recognised in profit or loss	**13,982**	10,132

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 the six months ended 30 June 2019 (six months ended 30 June 2018: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	Financial periods
The Company *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
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.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
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.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
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.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
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.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
瀘州市南郊水業有限公司(Luzhou Nanjiao Water Co., Ltd.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
瀘州市四通自來水工程有限公司(Luzhou Sitong Tap Water Engineering Co., Ltd.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
瀘州市興瀘污水處理有限公司(Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment") *(Note (a)/(b))*	Nil or 15%	Six months ended 30 June 2018 and 2019
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.) *(Note (a))*	15%	Six months ended 30 June 2018 and 2019
瀘州市興合水環境治理有限公司(Luzhou Xinghe Water Governance Co., Ltd.) ("Xinghe Water") *(Note (a)/(d))*	15%	Six months ended 30 June 2019
威遠清溪水務有限公司(Weiyuan Qingxi Water Co., Ltd.)("Weiyuan Qingxi Water") *(Note (a)/(d))*	15%	Six months ended 30 June 2019
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") *(Note (a)/(d))*	15%	Six months ended 30 June 2019
樂山市興瀘水務興嘉環保科技有限公司(Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.) ("Leshan Xingjia") *(Note (c))*	20%	Six months ended 30 June 2019 (six months ended 30 June 2018: N/A)
瀘州市繁星環保發展有限公司(Luzhou Fanxing Environmental Protection and Development Co., Ltd.)("Fanxing Environmental") *(Note (b))*	Nil	Six months ended 30 June 2019

Notes:

a 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 2019, and therefore enjoy the preferential EIT rate of 15% for the period.

b 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 rate of Chengdong and Chengnan is nil for the six months ended 30 June 2018 and 2019.

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, is also entitled to be exempted from EIT in respect of the income generated by it 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. Fanxing Environmental commenced production and operation in February 2019 and the EIT rate is nil for the six months ended 30 June 2019.

c According to the Notice on Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Notice of the State Administration of Taxation No. 13 [2019]), Leshan Xingjia enjoys the preferential tax rate of 20%.

d Xinghe Water was established on 29 August 2018.

Weiyuan Qingxi Water and Weiyuan Installation Company were acquired by the Company on 21 September 2018.

8. DIVIDENDS

During 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 (six months ended 30 June 2018: (unaudited) RMB68,777,000 or RMB0.08 per share) was declared to the shareholders of the Company.

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: (unaudited) Nil).

9. 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	
	2019	2018
	(unaudited)	(unaudited)
Profit for the period attributable to the owners of the Company *(RMB'000)*	**93,611**	65,380
Weighted average number of ordinary shares issued *('000)*	**859,710**	859,710

No diluted earnings per share is presented for the six months ended 30 June 2018 and 2019 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

10. TRADE RECEIVABLES

	At 30 June 2019 *RMB'000* (unaudited)	At 31 December 2018 *RMB'000* (audited)
Trade receivables	**190,462**	131,889
Less: Allowance for credit losses	**(2,532)**	(2,661)
	187,930	129,228

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 to 6 months to its wastewater treatment and installation services customers.

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 30 June 2019 *RMB'000* (unaudited)	At 31 December 2018 *RMB'000* (audited)
Within 3 months	**109,727**	77,388
Between 4 months and 6 months	**26,704**	20,742
Between 7 months and 12 months	**36,363**	20,201
Over 1 year	**15,136**	10,897
	187,930	129,228

11. TRADE PAYABLES

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

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Within 6 months	**40,487**	33,344
Between 7 months and 12 months	**3,673**	2,426
Over 1 year	**5,916**	7,645
	50,076	43,415

The credit period on purchases are generally within 6 months.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

The 19th National Congress proposed the strategic development plan of "acceleration of reform of ecological civilization for building a beautiful China", which led the environmental protection and water treatment industry to enter into a new era for development. On 29 April 2019, "Three-year Action Plan (2019–2021) for Improving the Quality and Efficiency of Urban Sewage Treatment" was issued by the Ministry of Housing and Urban-Rural Development, Ministry of Ecology and Environment and National Development and Reform Commission, whose core is to accelerate the renovation and construction on facilities for collecting and handling domestic sewage, and to strengthen the government's implementation responsibility. The plan is helpful for cracking the key knots of urban sewage treatment and brings new opportunities for urban sewage treatment projects of water enterprises. On 3 July 2019, nine governmental sectors, including the Central Agricultural Office, the Ministry of Agriculture and Rural Affairs, the Ministry of Ecology and Environment, and the Ministry of Housing and Urban-Rural Development, jointly issued the "Guiding Opinions on Promoting the Treatment of Rural Domestic Sewage" ("**Guiding Opinions**"), in which it clearly identified tasks of coordinating and promoting domestic sewage treatment, and scientifically and rationally proposed the overall requirements for the treatment of rural domestic sewage in China. Therefore, the Guiding Opinions pointed out the scientific direction of action and development path for local governments at all levels and environmental protection enterprises. It also brings opportunities for the drainage business and quality improvement of water companies.

At present, there is still a large gap between the wastewater treatment rate of national towns and the targets in the 13th Five-Year Plan. This situation is even more severe in rural areas as a result of their inadequate wastewater treatment capacity. According to the "13th Five-Year Plan for the National Construction of Urban Sewage Treatment and Recycling Facilities", investment of RMB564.4 billion will be used in the construction of urban sewage treatment and recycling facilities that remains a key investment area during the "13th Five-Year Plan" period. This will enable water enterprises to keep up with national strategies, identify gaps and seize investment opportunities to bring development opportunities.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2019, the Company will continue to maintain its strategic position as "standing firm in the primary business of water supply, stretching its businesses in the industry chain, expanding the environmental protection business, and building the core technology". Striving for external expansion and internal management, the Company will maintain sustainable development motivation. The Company will focus on the sustainable development ability of projects through adopting the way of "using reserves to bring improvement and using key points to lead all areas", realizing in-depth local operations and external expansion as well as a deep and excellent development of businesses in different areas based on consolidating the local business; capture existing advanced experience in the management of production platforms, automatic renovation and measurement by areas to commerce construction of smart enterprise for water treatment for creating the Company's core competitiveness further; adhere to innovation-driven development, strengthen internal control standard, and improve operational capacity with enhanced profitability, promoting the Company's development with high-speed and high-quality.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, whose business principally includes 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 entered into concession agreements for a maximum period of 30 years. The Company mainly engages business in Luzhou City, Weiyuan area in Neijiang City, etc.

As at the end of the Reporting Period, we operated nine tap water plants and 50 wastewater treatment plants with a total treatment capacity of approximately 827,550 tons per day.

Tap Water Project

As at the end of the Reporting Period, the Group owned nine water supply concession projects with a daily supply capacity of approximately 498,500 tons, which held flat as compared with 31 December 2018. The average utilisation rate of tap water plants stood at 82.87%.

During the Reporting Period, the total sales of water amounted to approximately 61.1 million tons, representing an increase of 20.3% as compared with the sales of tap water of approximately 50.8 million tons for the six months ended 30 June 2018. The growth was mainly due to the increased scope of supply area and the business expansion resulting from the acquisition of Weiyuan Qingxi Water by the Company in September 2018.

Wastewater Treatment Project

As at the end of the Reporting Period, the Group owned 50 operating wastewater treatment plants with a daily treatment capacity of approximately 329,050 tons in aggregate and the average load rate of wastewater treatment plants stood at 88.04%.

During the Reporting Period, our total wastewater treatment capacity amounted to approximately 52.1 million tons, representing an increase of 51.5% as compared with the total actual wastewater treatment capacity of approximately 34.4 million tons for the six months ended 30 June 2018. Our total capacity of wastewater treatment with charges amounted to approximately 64.6 million tons, representing an increase of 54.5% as compared with the total capacity of wastewater treatment with charges of approximately 41.8 million tons for the six months ended 30 June 2018. The increase was mainly attributable to an increase in treatment volume of wastewater resulting from the expanded pollution-absorptive areas by the Company, and the significant increase in production capacity and operating load after the completion of Ya'erdang capacity expansion project.

(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 45.9% from approximately RMB567.8 million for the six months ended 30 June 2018 to approximately RMB828.4 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 31.2% from approximately RMB106.3 million for the six months ended 30 June 2018 to approximately RMB139.5 million for the Reporting Period. The increase was mainly attributable to the addition of revenue of Weiyuan Qingxi Water, a subsidiary acquired in September 2018, during the Reporting Period. Revenue generated from sales of tap water accounted for 18.7% and 16.8% of our total revenue for the six months ended 30 June 2018 and 2019, respectively.

1.1.1.2 Installation services

Revenue of the Group generated from installation services decreased by 23.6% from approximately RMB163.6 million for the six months ended 30 June 2018 to approximately RMB125.0 million during the Reporting Period. The main reason for the decrease was that most of "water/power/gas supply and property" water meters renovation engineering completed in 2018, and water meters engineering for the Reporting Period declined as compared to the previous year. Revenue generated from installation and maintenance services accounted for 28.8% and 15.1% of our total revenue for the six months ended 30 June 2018 and 2019, 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 48.5% from approximately RMB161.9 million for the six months ended 30 June 2018 to approximately RMB240.5 million during the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Huangxi Water Plant Project, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project have entered into the construction stage, leading to the increase of the tap water supply infrastructure construction and upgrade projects during 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 60.3% from approximately RMB78.8 million for the six months ended 30 June 2018 to approximately RMB126.3 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 during the Reporting Period. During the Reporting Period, the capacity of wastewater treatment with charges also increased as compared with that for the same period of last year. The treatment volume of charged wastewater was 41.8 million tons and 64.6 million tons for the six months ended 30 June 2018 and 2019, respectively. Revenue generated from wastewater treatment operation accounted for 13.9% and 15.2% of our total revenue for the six months ended 30 June 2018 and 2019, respectively.

1.1.2.2 Interest income

The Group's interest income increased by 39.4% from approximately RMB16.5 million for the six months ended 30 June 2018 to approximately RMB23.1 million during the Reporting Period. The increase was mainly due to the increase in the receivables resulting from the completion and commencement of operation of Ya'erdang capacity expansion project in August 2018, which led to the increase in the interest income of the 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 328.7% from approximately RMB40.6 million for the six months ended 30 June 2018 to approximately RMB174.0 million during the Reporting Period. The primary reason for the increase was that the Fanxing Environmental, which was newly acquired by the Group, was conducting infrastructure construction project.

1.2 Cost of sales and services

The Group's cost of sales and services increased by 48.6% from approximately RMB443.2 million for the six months ended 30 June 2018 to approximately RMB658.4 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 and services associated with sales of tap water increased by 5.6% from approximately RMB100.4 million for the six months ended 30 June 2018 to approximately RMB106.0 million during the Reporting Period. The increase was mainly attributable to the increase in sales cost of tap water of newly acquired Weiyuan Qingxi Water.

1.2.1.2 Installation services

The cost of sales and services associated with installation services decreased by 33.7% from approximately RMB83.5 million for the six months ended 30 June 2018 to approximately RMB55.4 million during the Reporting Period. Such decrease was primarily because the reduced installation projects resulted in the reduced installation service costs during the Reporting Period.

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 48.5% from approximately RMB161.5 million for the six months ended 30 June 2018 to approximately RMB239.8 million during the Reporting Period. Such increase was mainly due to the increase in the amount of engineering projects, including Naxi Water Plant, Huangxi Water Plant and Nanjiao Second Water Plant Phase II, and water supply pipeline network installation projects.

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 45.4% from approximately RMB57.3 million for the six months ended 30 June 2018 to approximately RMB83.3 million during the Reporting Period. Such increase was mainly because of a corresponding increase in operating costs incurred from an increase in treatment volume in wastewater, 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 12.9% and 12.7% of our total cost of sales and services for the six months ended 30 June 2018 and 2019, respectively.

1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services from construction and upgrade on wastewater treatment infrastructure increased by 328.6% from approximately RMB40.6 million for the six months ended 30 June 2018 to approximately RMB174.0 million during the Reporting Period. Such increase was mainly because the projects under construction of the Group's newly acquired Fanxing Environmental led to an increase in relevant costs during the Reporting Period.

1.3 Gross profit and gross profit margin

As a result of above, our gross profit increased by 36.4% from approximately RMB124.6 million for the six months ended 30 June 2018 to approximately RMB170.0 million during the Reporting Period. Gross profit margin decreased from 21.9% for the six months ended 30 June 2018 to 20.5% during the Reporting Period. Such decrease was primarily because the significant rise in tap water and wastewater treatment infrastructure and upgrade works that are of lower gross profit margin reduced the comprehensive gross profit margin. However, the Company maintained a stable growth trend in gross profit margin of sales of tap water and wastewater treatment 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 469.5% from approximately RMB5.9 million for the six months ended 30 June 2018 to approximately RMB33.6 million during the Reporting Period. The corresponding gross profit margin increased from 5.6% for the six months ended 30 June 2018 to 24.0% during the Reporting Period. Such increase was mainly due to the prominent scale effect as a result of an increase in sales, and the strengthened cost control of the Company.

1.3.1.2 Installation services

The gross profit of the Group for installation services decreased by 13.1% from approximately RMB80.1 million for the six months ended 30 June 2018 to approximately RMB69.6 million during the Reporting Period. The corresponding gross profit margin increased from 49.0% for the six months ended 30 June 2018 to 55.7% during the Reporting Period. Such increase was mainly because the gross profit of "service sector moving" water meters renovation projects are generally lower than gross profit of the general water meters installation projects, and the decrease in such projects during the Reporting Period resulted in an increase in gross profit margin.

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 68.1% from approximately RMB401,000.0 for the six months ended 30 June 2018 to approximately RMB674,000.0 during the Reporting Period. Such increase was primarily because the Group entered into the construction of Huangxi Water Plant, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project and pipe network construction project during the Reporting Period. The corresponding gross profit margin remained relatively stable at 0.3% and 0.3% for the six months ended 30 June 2018 and 2019, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services increased by 99.1% from approximately RMB21.6 million for the six months ended 30 June 2018 to approximately RMB43.0 million during the Reporting Period. The corresponding gross profit margin increased from 27.3% for the six months ended 30 June 2018 to 34.1% during the Reporting Period. The increase was mainly attributable to the increase in volume of charged wastewater in treatment plants including Chengdong and Chengnan, the stable operation of Ya'erdang capacity expansion project with a gradual increase in revenue, and the Group's effective control over costs.

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 approximately RMB34,000.0 for the six months ended 30 June 2018 to approximately RMB70,000.0 during the Reporting Period. The increase was mainly because newly acquired Fanxing Environmental was building wastewater treatment infrastructure in rural areas.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net significantly increased from approximately RMB4.2 million for the six months ended 30 June 2018 to approximately RMB16.3 million during the Reporting Period.

The increase in other income, expenses, gains and losses, net was mainly because the bank interest income for the Reporting Period increased significantly as compared with the six months ended 30 June 2018. In addition, as the balance of the Group's listed funds raised from the initial global offering (in Hong Kong dollars) decreased, the exchange loss decreased from approximately RMB8.3 million for the six months ended 30 June 2018 to approximately RMB0.2 million during the Reporting Period.

1.5 Distribution and Selling Expenses

The Group's selling and distribution expenses increased by 55.4% from approximately RMB5.6 million for the six months ended 30 June 2018 to approximately RMB8.7 million during the Reporting Period. The increase was primarily due to the increase in staff costs and the sales costs of Weiyuan Qingxi Water acquired in September 2018.

1.6 Administrative Expenses

The Group's administrative expenses increased by 39.2% from approximately RMB24.0 million for the six months ended 30 June 2018 to RMB33.4 million during the Reporting Period. The increase was mainly due to the growth in costs for staff and the rise of administrative expenses of Weiyuan Qingxi Water and Weiyuan Installation Company acquired in September 2018.

1.7 Finance Costs

The Group's finance costs increased by 77.4% from approximately RMB16.8 million for the six months ended 30 June 2018 to approximately RMB29.8 million during the Reporting Period, which was primarily because of a rise in interest expense incurred from the matters including the increase in borrowings, the issue of corporate bonds and the obtained financing lease payment by the Group during the Reporting Period.

1.8 Income Tax Expense

In line with the increase in profit before tax, the income tax expenses increased by 38.6% from approximately RMB10.1 million for the six months ended 30 June 2018 to approximately RMB14.0 million during the Reporting Period. For the six months ended 30 June 2018 and 2019, the effective tax rates of the Group were 12.8% and 12.3%, respectively.

1.9 Profit after Tax and Profit after Tax Margin

As a result of above, the profit after tax increased by 43.8% from approximately RMB69.2 million for the six months ended 30 June 2018 to approximately RMB99.5 million during the Reporting Period. Our profit margin after tax decreased from 12.2% for the six months ended 30 June 2018 to 12.0% 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 approximately RMB39.9 million and approximately RMB40.2 million as at 31 December 2018 and the end of the Reporting Period, respectively, which consisted primarily of office buildings, machinery and office equipment, office furniture, fixtures and others. Apart from the depreciation, property, plant and equipment of the Group slightly increased from approximately RMB39.9 million as at 31 December 2018 to approximately RMB40.2 million as at the end of the Reporting Period. Such increase was mainly attributable to the increase of non-infrastructures related machines, office equipment and others. In addition, the Group acquired Fanxing Environmental and established Leshan Xingjia during the Reporting Period, leading to the increase of the machines, office equipment, fixtures and others.

2.2 Intangible Assets

The Group's intangible assets were approximately RMB1,947.2 million and approximately RMB2,189.9 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly due to the construction of engineering projects and the completion of upgrade work.

2.3 *Receivables under Service Concession Arrangements*

The Group's receivables under service concession arrangements were approximately RMB851.0 million and approximately RMB1,083.8 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly due to the acquisition of Fanxing Environmental during the Reporting Period, leading to the increase in receivables under the service concession arrangements.

2.4 *Inventories*

The Group's inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to approximately RMB33.0 million and approximately RMB56.9 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly because the expansion of installation business of water meters during the Reporting Period led to an increase in the reserve of far passing water gauge and pipe material 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	
	2019	2018
Average inventory turnover days[(1)]	**12**	23

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

We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days decreased from 23 days for the six months ended 30 June 2018 to 12 days for the Reporting Period. Such decrease was mainly due to the speeding up of inventory turnover as a result of the Group's strengthened management over inventory during the Reporting Period.

2.5 Trade Receivables

Trade receivables of the Group were RMB129.2 million and RMB188.0 million as at 31 December 2018 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	
	2019	2018
Average trade receivables turnover days[(1)]	**35**	53

(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 53 days for the six months ended 30 June 2018 to 35 days during the Reporting Period. Such decrease was primarily a result of our enhanced management policies on trade receivables collection during the Reporting Period.

2.6 Trade Payables

Our trade payables were RMB43.4 million and RMB50.1 million as at 31 December 2018 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	
	2019	2018
Average trade payables turnover days[(1)]	**13**	19

(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 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 decreased from 19 days for the six months ended 30 June 2018 to 13 days during the Reporting Period. Such decrease was mainly because the Group strengthened the management of outstanding amounts and promptly paid trade payables.

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	
	2019	2018
Average trade payables and construction payables turnover days[(1)]	**78**	102

(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 of the Group decreased from 102 days for the six months ended 30 June 2018 to 78 days for the Reporting Period. Such decrease was mainly because the engineering project bore heavy tasks under a tight construction period during the Reporting Period. Therefore, the Group accelerated payments for project progress fees to ensure the successful advancement of engineering project.

2.8 Deferred Income – Government Grants

Deferred income – government grants of the Group was approximately RMB168.7 million and RMB164.7 million as at 31 December 2018 and the end of Reporting Period, respectively. The decrease was mainly due to the amortization on the deferred income occurred during the Reporting Period.

2.9 Contract Liability and Other Payables

The contract liability and other payables increased from approximately RMB532.8 million as at 31 December 2018 to approximately RMB763.8 million as at the end of the Reporting Period, which was mainly due to the increase in contract liabilities as a result of the increase in water meters installation projects of the Group during the Reporting Period, and the increase in construction payables of various tap water supply projects (including Naxi Water Plant, Nanjiao Second Water Plant Phase II and the overall district water supply project, etc.) and wastewater treatment projects (including the Erdaoxi Project Phase III).

3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities of the Group will be able to carry out sustainable businesses and optimize the debt and equity balance to maximise the return to shareholders of the Company (the "**Shareholders**"). 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 approximately RMB1,012.4 million (31 December 2018: RMB547.7 million).

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB2,173.5 million (31 December 2018: RMB1,621.0 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB1,195.5 million (31 December 2018: RMB844.4 million), including bank and other borrowings. Approximately 70.9% 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 9.0% (31 December 2018: 15.2%).

As at the end of the Reporting Period, the asset-to-debt ratio of the Group (calculated by net debts divided by total capital) decreased from approximately 37.4% as at 31 December 2018 to approximately 13.5% as at the end of the Reporting Period. The decrease in asset-to-debt ratio was mainly due to the increase in utilizable bank deposits during the Reporting Period.

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 877 employees (31 December 2018: 849 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB73.3 million (six months ended 30 June 2018: RMB65.9 million). The remunerations and benefits for employees include basic and floating wages, 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) 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, approximately HK$394.7 million of the proceeds had been used by the Group as disclosed in the prospectus and approximately HK$6.1 million of the proceeds had not yet been used.

Use of proceeds	Amount *HK$ million*	Amount used *HK$ million*	Amount unused *HK$ million*
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	33.98	6.1
Total	400.80	394.70	6.1

(VII) MAJOR ACQUISITIONS AND INVESTMENTS

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夥企業(有限合夥)), pursuant to which, the Company agreed to acquire an aggregate of 92.50% equity interest in Fanxing Environmental at a total consideration of RMB117.0 million. Upon completion of such equity transfers, Fanxing Environmental became a direct non-wholly owned subsidiary of the Company and its results would be consolidated into the consolidated financial statements of the Group. Please refer to the announcement issued by the Company on 27 February 2019 for details.

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

(VIII) PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, there were some bank borrowings of the Group were secured by the operating concessions for overall district water supply projects in Jiangyang District, the land-use rights owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for certain wastewater treatment fees and charging right for certain buildings and tap water plants of Weiyuan Qingxi Water and wastewater treatment projects of Fanxing Environmental in township and rural area in Jiangyang District, Luzhou City.

Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

(IX) FOREIGN EXCHANGE RISKS

During the Reporting Period, the Group carried out business in the PRC and receives revenue and pays its costs/expenses in RMB. The Group has a borrowing from The World Bank denominated in US dollar and unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognised net foreign exchange losses of RMB0.2 million at the end of the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

(X) CONTINGENT LIABILITIES

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

(XI) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the available-for-sale investments held by the Group amounted to RMB57.54 million (31 December 2018: RMB57.27 million), which represent the Group's equity investments of 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 investments do not have quoted market prices in an active market, and their fair values cannot be reliably measured.

(XII) EVENTS AFTER THE REPORTING PERIOD

As of the date of this announcement, the Group did not have any important 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 2019 (six months ended 30 June 2018: 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.

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 of the Corporate Governance Code, 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 Directors and independent Directors) 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) some of the Directors were required to be nominated by the Shareholders, while the nomination procedure 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 of the Corporate Governance Code, the Company has complied with all code provisions of the Corporate Governance Code.

(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 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 2019 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 consolidated interim financial statements of the Group for the six months ended 30 June 2019 have also been reviewed by the Audit Committee.

V. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The interim report of the Group for the six months ended 30 June 2019 will be dispatched to the Shareholders and released on the websites of the Stock Exchange and the Company in due course.

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

Luzhou, the PRC
28 August 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*