

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2019**

FINANCIAL HIGHLIGHTS FOR 2019

- Revenue amounted to approximately RMB2,067.1 million, representing an increase of approximately 69.7% from the year ended 31 December 2018.
- Profit for the year amounted to approximately RMB201.5 million, representing an increase of approximately 20.5% from the year ended 31 December 2018.
- Profit attributable to owners of the Company amounted to approximately RMB190.6 million, representing an increase of approximately 23.7% from the year ended 31 December 2018.
- Basic earnings per share amounted to approximately RMB0.22, representing an increase of approximately 22.2% from the year ended 31 December 2018.
- The Board proposed the payment of a final dividend of RMB0.06 per share (tax inclusive) for the year ended 31 December 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 consolidated annual results and financial position of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019 (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

		For the year ended 31 December	
		2019	2018
	NOTES	RMB'000	RMB'000
Revenue	3		
Tap water supply		317,538	235,619
Wastewater treatment operating services		266,893	194,081
Interest income		55,835	40,310
Installation services		291,372	282,953
Construction and upgrade services of infrastructure		1,135,494	465,243
Total revenue		2,067,132	1,218,206
Cost of sales and services		(1,691,668)	(939,810)
Gross profit		375,464	278,396
Other income, expenses, gains and losses, net	5	36,879	30,003
Impairment losses under expected credit loss model, net of reversal		(1,346)	(1,470)
Distribution and selling expenses		(18,180)	(13,268)
Administrative expenses		(84,454)	(69,795)
Finance costs	6	(76,369)	(37,236)
Profit before tax		231,994	186,630
Income tax expense	7	(30,471)	(19,388)
Profit for the year		201,523	167,242

		For the year ended 31 December	
		2019	2018
	NOTES	RMB'000	RMB'000
Other comprehensive income			
(expense):			
Items that will not be reclassified to profit or loss:			
Fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income (before tax)		492	(818)
Deferred income tax on fair value (gain) loss on investments in equity instruments at fair value through other comprehensive income		(123)	204
Other comprehensive income (expense) for the year, net of income tax		369	(614)
Total comprehensive income for the year		201,892	166,628
Profit for the year attributable to:			
– Owners of the Company		190,591	154,065
– Non-controlling interests		10,932	13,177
		201,523	167,242
Total comprehensive income for the year attributable to:			
– Owners of the Company		190,960	153,451
– Non-controlling interests		10,932	13,177
		201,892	166,628
EARNINGS PER SHARE (RMB)			
– Basic	9	0.22	0.18

(b) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current Assets			
Property, plant and equipment		56,663	39,919
Right-of-use assets		76,893	–
Contract assets		181,203	–
Prepaid lease payments		–	76,745
Investment properties		12,173	12,622
Goodwill		25,278	25,278
Intangible assets	10	2,714,174	1,947,203
Equity instruments at fair value through other comprehensive income		57,765	57,273
Prepayment and other receivables		14,526	4,000
Receivables under service concession arrangements		1,146,359	833,537
Deferred tax assets		29,925	21,568
		4,314,959	3,018,145

		At 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current Assets			
Inventories		45,351	33,002
Receivables under service concession arrangements	10	22,784	17,454
Trade receivables	11	269,913	129,228
Prepayments and other receivables		38,784	45,864
Prepaid income tax		9,726	–
Contract assets		18,209	18,606
Prepaid lease payments		–	1,857
Bank balances and cash		1,095,877	547,681
		1,500,644	793,692
Current Liabilities			
Trade payables	12	54,134	43,415
Other payables		793,888	356,404
Tax liabilities		4,107	17,912
Borrowings		491,932	392,256
Lease liabilities		37	–
Provisions		3,657	1,769
Contract liabilities		226,379	176,350
		1,574,134	988,106
Net Current Liabilities		(73,490)	(194,414)
Total Assets Less Current Liabilities		4,241,469	2,823,731

		At 31 December	
		2019	2018
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and Reserves			
Share capital	13	859,710	859,710
Share premium and reserves		1,159,702	1,020,325
Equity attributable to owners of the Company		2,019,412	1,880,035
Non-controlling interests		108,066	76,876
Total Equity		2,127,478	1,956,911
Non-current Liabilities			
Deferred tax liabilities		17,776	16,766
Borrowings		931,641	452,178
Lease liabilities		46	–
Provisions		293,781	229,164
Deferred income – government grants		173,849	168,712
Bonds payables		696,898	–
		2,113,991	866,820
		4,241,469	2,823,731

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

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Lease* (“IAS 17”), and the related interpretations.

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.

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 or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in 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 a 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 (the "PRC") was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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 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: Recognition 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 following:

	<i>Note</i>	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)	<u>78,602</u>
		<u>78,649</u>

Note: (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon 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 consolidated statement of financial position as at 1 January 2019 and 31 December 2019 and its consolidated statement profit or loss and other comprehensive income, earnings per share and cash flows for the year ended 31 December 2019.

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied under trade and other payables. 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.

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

		Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under IFRS 16 at 1 January 2019
	Notes	RMB'000	RMB'000	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:

	For the year ended	
	31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Type of services		
Tap water supply		
– Tap water	317,538	235,619
– Installation services	291,372	282,953
– Construction and upgrade services of tap water supply infrastructure	810,677	357,108
	<u>1,419,587</u>	<u>875,680</u>
Wastewater treatment		
– Operating services	266,893	194,081
– Construction and upgrade services of wastewater treatment infrastructure	324,817	108,135
	<u>591,710</u>	<u>302,216</u>
Revenue from contracts with customers	<u>2,011,297</u>	<u>1,177,896</u>
Wastewater treatment		
– Interest income on receivables under service concession arrangements	55,835	40,310
Revenue	<u><u>2,067,132</u></u>	<u><u>1,218,206</u></u>

	For the year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Timing of revenue recognition		
At a point in time	584,431	429,700
Over time	1,426,866	748,196
	<u>2,011,297</u>	<u>1,177,896</u>
Type of customer		
Government	1,459,511	662,865
Non-government	551,786	515,031
	<u>2,011,297</u>	<u>1,177,896</u>

The Group's above revenue are derived from 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 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.

In addition, the wastewater treatment segment includes certain subsidiaries of the Company providing wastewater treatment services and 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, "Wastewater treatment segment", because, in the opinion of the Directors, they have similar economic characteristics and provide wastewater treatment services and related construction and upgrade services in the PRC under similar production processes to similar classes of customers 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:

	For the year ended	
	31 December	
	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	317,538	235,619
– Installation services	291,372	282,953
– Construction and upgrade services of tap water supply infrastructure	810,677	357,108
– Inter-segment sales*		
– Tap water	162	413

	For the year ended	
	31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Wastewater treatment		
– From external customers		
– Operating service	266,893	194,081
– Interest income on receivables under service concession arrangements	55,835	40,310
– Construction and upgrade services of wastewater treatment infrastructure	324,817	108,135
Elimination*	<u>(162)</u>	<u>(413)</u>
Revenue	<u>2,067,132</u>	<u>1,218,206</u>
Segment results		
– Tap water supply**	115,529	94,834
– Wastewater treatment	<u>85,994</u>	<u>72,408</u>
Profit after tax	<u>201,523</u>	<u>167,242</u>

* Inter-segment sales for the years ended 31 December 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 assets and liabilities

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

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets		
– Tap water supply	3,849,127	2,543,970
– Wastewater treatment	2,015,976	1,267,867
Elimination	(49,500)	–
Consolidated total assets	<u>5,815,603</u>	<u>3,811,837</u>
Segment liabilities		
– Tap water supply	2,617,314	1,281,946
– Wastewater treatment	1,120,311	572,980
Elimination	(49,500)	–
Consolidated total liabilities	<u>3,688,125</u>	<u>1,854,926</u>

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

	For the year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Value-added-tax (“VAT”) refunds (<i>Note (a)</i>)	12,345	14,753
Deferred income in respect of government grants recognised	6,726	13,832
Bank interest income	4,321	4,329
Late charges on tap water users	3,631	3,167
Commission income on garbage fees collected for governmental bureau	2,038	300
Gains on disposal of property, plant and equipment, net	980	–
Rental income less outgoings (<i>Note (b)</i>)	829	663
Foreign exchange gains (losses), net	192	(9,684)
Sewage charges	–	(131)
Donations	(1,718)	(183)
Others (<i>Note (c)</i>)	7,535	2,957
	36,879	30,003

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. Rental income are all generated from operating leases, and related lease payments are fixed.
- c. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, other equipment and materials, etc.

6. FINANCE COSTS

	For the year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	42,184	30,549
Interest on bonds payable	22,795	–
Interest on other borrowings	16,204	3,085
Unwinding of the discount	10,924	7,291
Interest on lease liabilities	1	–
	<u>92,108</u>	<u>40,925</u>
Less: Amount capitalised in qualified assets	<u>(15,739)</u>	<u>(3,689)</u>
	<u>76,369</u>	<u>37,236</u>

7. INCOME TAX EXPENSE

	For the year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current year	39,212	40,396
Underprovision (overprovision) in prior years	<u>624</u>	<u>(609)</u>
	<u>39,836</u>	<u>39,787</u>
Current tax	39,836	39,787
Deferred tax	<u>(9,365)</u>	<u>(20,399)</u>
	<u>30,471</u>	<u>19,388</u>
Total income tax recognised in profit or loss	<u>30,471</u>	<u>19,388</u>

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 (<i>Note (a)</i>)	15%	Years ended 31 December 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.) (<i>Note (a)</i>)	15%	Years ended 31 December 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.) (<i>Note (a)</i>)	15%	Years ended 31 December 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.) (<i>Note (a)</i>)	15%	Years ended 31 December 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.) (<i>Note (a)</i>)	15%	Years ended 31 December 2018 and 2019
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) (<i>Note (a)</i>)	15%	Years ended 31 December 2018 and 2019
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) (<i>Note (a)</i>)	15%	Years ended 31 December 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 ”) (<i>Notes (a) and (b)</i>)	7.5% or 15%	Years ended 31 December 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.) (<i>Note (a)</i>)	15%	Years ended 31 December 2018 and 2019
瀘州市興合水環境治理有限公司 (Luzhou Xinghe Water Governance Co., Ltd.) (<i>Note (a)</i>)	15%	Years ended 31 December 2018 and 2019

Name of company	Applicable	EIT rate	Financial years
興瀘水務(集團)威遠清溪水務有限公司(“Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.”) (“ Weiyuan Qingxi Water ”) (Note (a))	15%	Years ended 31 December 2018 and 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))	15%	Years ended 31 December 2018 and 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%	Period/Year ended 31 December 2018 and 2019	
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“ Fanxing Environmental ”) (Note (b))	Nil	Year ended 31 December 2019 (Year ended 31 December 2018: N/A)	
敘永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd) (“ Yongxing Water ”) (Note (c))	20%	Period ended 31 December 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. During the years ended 31 December 2018 and 2019, 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 accounted for more than 70% of their total revenue in these years. Therefore these entities enjoy the preferential EIT rate of 15%.

- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two 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 is 7.5% for the year ended 31 December 2019 (2018: Nil).

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 year ended 31 December 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 and Yongxing Water enjoy the preferential tax rate of 20%.

8. DIVIDENDS

A final dividend of RMB51,583,000 or RMB0.06 per share (2018: RMB68,777,000 or RMB0.08 per share) (tax inclusive) in respect of the year ended 31 December 2018 was declared and fully paid to the shareholders of the Company ("**Shareholders**") during the year ended 31 December 2019.

Subsequent to the end of the Reporting Period, a final dividend of RMB51,583,000 or RMB 0.06 per share (tax inclusive) in respect of the year ended 31 December 2019 (2018: final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018) has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

9. 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:

	For the year ended 31 December	
	2019	2018
Profit for the year attributable to the owners of the Company (<i>RMB'000</i>)	<u>190,591</u>	<u>154,065</u>
Weighted average number of ordinary shares issued (<i>'000</i>)	<u>859,710</u>	<u>859,710</u>

No diluted earnings per share is presented for the years ended 31 December 2019 and 2018 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

10. 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/right-of-use assets 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 a maximum 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 or the infrastructure is transferred to the Grantor at nil consideration at the end of service concession period.

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,

(unless such infrastructure is pledged against borrowings for the operation of the Group within the Service Concession Period as allowed under certain service concession agreements), 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 contract asset (during construction phase) 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:

	<i>RMB'000</i>
Cost	
At 1 January 2018	1,633,384
Acquisition of a subsidiary	182,788
Contribution by a non-controlling equity owner of a subsidiary	3,962
Additions	<u>373,803</u>
At 31 December 2018	2,193,937
Acquisition of a subsidiary	7,579
Adjustment to previous contribution by a non-controlling equity owner of a subsidiary	(925)
Additions	<u>862,119</u>
At 31 December 2019	<u>3,062,710</u>
Accumulated amortisation	
At 1 January 2018	(172,144)
Amortisation for the year	<u>(74,590)</u>
At 31 December 2018	(246,734)
Amortisation for the year	<u>(101,802)</u>
At 31 December 2019	<u>(348,536)</u>
Carrying amounts	
At 31 December 2019	<u>2,714,174</u>
At 31 December 2018	<u>1,947,203</u>

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume and fixed monthly payment 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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion	1,146,359	833,537
Current portion	22,784	17,454
	<u>1,169,143</u>	<u>850,991</u>
Expected collection schedule is analysed as follows:		
Within one year	22,784	17,454
More than one year, but not exceeding two years	24,519	19,840
More than two years, but not exceeding three years	25,802	21,360
More than three years, but not exceeding four years	27,158	22,379
More than four years, but not exceeding five years	28,619	23,449
Over five years	1,040,261	746,509
	<u>1,169,143</u>	<u>850,991</u>

The effective rate for the above financial assets fall within the range from 3.51% to 6.33% (2018: 3.51% to 6.22%) per annum.

11. TRADE RECEIVABLES

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	271,608	131,889
Less: Allowance for credit losses	(1,695)	(2,661)
	<u>269,913</u>	<u>129,228</u>

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 and installation services customers.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB102,033,000.

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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	165,956	77,388
Between 3 months and 6 months	36,419	20,742
Between 6 months and 12 months	31,833	20,201
Over 1 year	35,705	10,897
	<u>269,913</u>	<u>129,228</u>

12. TRADE PAYABLES

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

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	42,204	33,344
Between 6 months and 12 months	4,463	2,426
Over 1 year	7,467	7,645
	<u>54,134</u>	<u>43,415</u>

The credit period on purchases are generally within 6 months.

13. SHARE CAPITAL

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning and end of the year	<u>859,710</u>	<u>859,710</u>
	<i>'000</i>	<i>'000</i>
Shares of RMB1 each		
– Domestic shares	644,770	644,770
– H shares	<u>214,940</u>	<u>214,940</u>
	<u>859,710</u>	<u>859,710</u>

Domestic shares and H shares rank pari passu in all respects with each other. Domestic shares are not eligible for trading on the Main Board of the Stock Exchange.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

In 2019, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Provisions for the Supervision of Ecological Environment Protection (《生態環境保護督察工作規定》), which reflects the determination of the Party Central Committee and the State Council to promote ecological civilization and strengthen ecological environment protection. The Ministry of Finance published the Measures for the Administration of Funds for Water Pollution Prevention and Control (《水污染防治資金管理辦法》), which financially supports water pollution prevention and control and water environmental protection by enterprises in the water and environmental protection industry. The Department of Housing and Urban-Rural Development of Sichuan Province, the Department of Ecology and Environment of Sichuan Province and the Development and Reform Commission of Sichuan Province jointly announced the Three-Year Action Plan for Improving Quality and Efficiency in Urban Wastewater Treatment (《四川省城鎮污水處理提質增效三年行動實施方案》) to continue to promote the construction, renovation and repairment of the pipeline networks of urban municipal wastewater treatment, accelerate the full coverage, full collection, and full treatment of wastewater pipeline networks, promote the black and foul water treatment in cities, and construct and upgrade wastewater treatment facilities. Meanwhile, as the security of water supply in urban and rural areas carries more weight, local governments are working to integrate small water firms, which represents opportunities for water enterprises to improve their quality and efficiency.

As more and more market players join in, the water industry is diversifying. At the same time, its concentration ratio continues to rise as a result of fierce competition, integration and organization. Therefore, to stay competitive and seize market opportunities, the Company must learn to strengthen areas of weakness, optimize management services, improve standards and develop core technologies, make large-scale mergers and acquisitions and provide guarantee with innovative financing. In addition, with the potential of the smart water market waiting to be unleashed, water informationization will become a trend of the water supply industry.

(II) Development Strategy and Outlook

In 2020, by closely focusing on the ideas of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, we’ll comprehensively improve the level of scientific management, further deepen reforms, integrate resources, restructure configurations, and build

the concept of integrated water services to improve the internal governance capabilities, enhance the internal supervision mechanisms and authorization management mechanisms, further streamline the management and control mechanisms, and improve the internal management environment. In addition, we'll continue to maintain healthy and benign operations, promote refinement in the production process, to achieve system control and improve the fund management system, as well as energy saving and efficiency improvement.

Moreover, we'll make efforts to build core competitiveness, vigorously promote the construction of smart water services, to form our own core technologies in the management of secondary supply platforms, leakage management, "Internet + production and operation" platforms, etc., and enable us to form core competitiveness in future foreign business expansion and to realize new profit growth points. Furthermore, we'll continue to adhere to the "going out" strategy and deepen the township and rural sewage treatment markets while consolidating the existing water supply and drainage business. We'll also strengthen project company management, improve risk prevention and control, and build a batch of high-quality and efficient projects for external expansion, so as to establish a good demonstration effect, and enhance the Company's brand reputation and influence in the industry.

(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, Leshan area, part of Liangshan Prefecture, Qingbaijiang area in Chengdu City, etc.

As at the end of the Reporting Period, we operated ten tap water plants and nine city wastewater treatment plants with a total treatment capacity of approximately 792,500 tons per day. We also operated several wastewater treatment facilities in urban and rural areas.

Tap Water Project

As at the end of the Reporting Period, the Group owned ten tap water plants with a daily supply capacity of approximately 491,500 tons representing an increase of one tap water plants and a decrease of approximately 7,000 tons of daily water supply capacity in aggregate as compared with that as at 31 December 2018. The average utilisation rate of tap water plants (excluding Xuyong Nantan Water Plant (which was acquired)) stood at 88.64%. Such decrease was mainly because of the decrease in the total daily water supply capacity of Qiancao Water Plant of the Group.

During the Reporting Period, our total sales of water amounted to approximately 132.9 million tons, representing an increase of 19.5% as compared with approximately 111.2 million tons for the year ended 31 December 2018. The increase was mainly due to the extended water supply areas in cities and the acquisition of Weiyuan 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 92.07%.

During the Reporting Period, our total actual treatment capacity of urban wastewater amounted to approximately 104.5 million tons, representing an increase of 19.7% as compared with the total actual wastewater treatment capacity of approximately 87.3 million tons for the year ended 31 December 2018. Our total capacity of urban wastewater treatment with charges amounted to approximately 126.3 million tons (including 1.5 million tons from entrusted operation and 15.7 million tons from emergency projects), representing an increase of 23.3% as compared with approximately 102.4 million tons for the year ended 31 December 2018, which was mainly attributable to the newly added entrusted operation and emergency projects at Lingang Industrial Park, Hejiang, and the increase in wastewater treatment upon stable operation of Ya'erdang capacity expansion project.

During the Reporting Period, we owned 67 wastewater treatment facilities in urban and rural areas of Jiangyang district, Longma district, Naxi district, Gulin county that have been put into operation successively, with a total daily treatment capacity of about 25,800 tons.

(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 69.7% from approximately RMB1,218.2 million for the year ended 31 December 2018 to approximately RMB2,067.1 million during the Reporting Period. The increased revenue was mainly from infrastructure construction and upgrade and increase in tap water sales and treatment volume of charged wastewater.

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 34.8% from approximately RMB235.6 million for the year ended 31 December 2018 to approximately RMB317.5 million for the Reporting Period. The increase was primarily due to a growth in the sales volume of tap water from approximately 111.2 million tons for the year ended 31 December 2018 to approximately 132.9 million tons during the Reporting Period. Revenue generated from sales of tap water accounted for 19.3% and 15.4% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

1.1.1.2 Installation services

Revenue of the Group generated from installation services increased by 3.0% from approximately RMB283.0 million for the year ended 31 December 2018 to approximately RMB291.4 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 23.2% and 14.1% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

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 127.0% from approximately RMB357.1 million for the year ended 31 December 2018 to approximately RMB810.7 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. Such revenue accounted for 29.3% and 39.2% of the total revenue for the years ended 31 December 2018 and 2019, respectively.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 37.5% from approximately RMB194.1 million for the year ended 31 December 2018 to approximately RMB266.9 million during the Reporting Period. This was primarily due to the increase in treatment volume of charged wastewater as a result of increased wastewater treatment capacity and newly added emergency services needed for entrusted operation during the Reporting Period. 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 approximately 102.4 million tons and 126.3 million tons for the year ended 31 December 2018 and 2019, respectively. Revenue generated from wastewater treatment operation accounted for 15.9% and 12.9% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

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 38.5% from approximately RMB40.3 million for the year ended 31 December 2018 to approximately RMB55.8 million during the Reporting Period. The increase was mainly due to the right to charge for wastewater treatment gained from the acquisition of Fanxing Environmental in February 2019. Interest income on receivables under service concession arrangements accounted for 3.3% and 2.7% of our total revenue for the years ended 31 December 2018 and 2019, respectively. The decrease in proportion was mainly attributable to the surge in revenue from infrastructure construction and upgrade.

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 200.5% from approximately RMB108.1 million for the year ended 31 December 2018 to approximately RMB324.8 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 and Erdaoxi Project Phase III and Xuyong Project Phase II were under construction. Such revenue accounted for 8.9% and 15.7% of the total revenue for the years ended 31 December 2018 and 2019, respectively.

1.2 *Cost of Sales and Services*

The Group's cost of sales and services increased by 80.0% from approximately RMB939.8 million for the year ended 31 December 2018 to approximately RMB1,691.7 million during the Reporting Period. This was primarily due to the sharp rise in the cost of infrastructure construction and upgrade.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

The Group's cost of sales and services of tap water increased by 25.3% from approximately RMB208.8 million for the year ended 31 December 2018 to approximately RMB261.6 million during the Reporting Period. This was primarily due to the increase in tap water sales and infrastructure amortization as a result of commencement of operation of water supply pipe networks to meet water supply needs. Cost of sales and services from tap water supply operations accounted for 22.2% and 15.5% of our total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

1.2.1.2 Installation services

The Group's cost of sales and services associated with installation services decreased by 23.9% from approximately RMB123.2 million for the year ended 31 December 2018 to approximately RMB93.8 million for the Reporting Period. This was primarily due to the decrease in the number of costly water meter renovation projects that require "Three supplies and one property" and in raw material consumption thanks to strengthened cost control. Cost of sales and services associated with installation services accounted for 13.1% and 5.5% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

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 increased by 127.2% from approximately RMB356.1 million for the year ended 31 December 2018 to approximately RMB809.1 million for 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. Such cost accounted for 37.9% and 47.8% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

1.2.2 Wastewater Treatment

1.2.2.1 Operating services

The Group's cost of sales and services from sewage treatment operating services increased by 41.1% from approximately RMB143.7 million for the year ended 31 December 2018 to RMB202.8 million during the Reporting Period. Such increase was mainly because of a corresponding increase in operating costs resulting from an increase in treatment volume in wastewater and stricter discharge requirements. Cost of sales and services from wastewater treatment operating services accounted for 15.3% and 12.0% of our total cost of sales and services for the years ended 31 December 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 sewage treatment infrastructure increased by 200.4% from approximately RMB108.0 million for the year ended 31 December 2018 to approximately RMB324.4 million during the Reporting Period. Such increase was mainly because the Fanxing Environmental, which was newly acquired by the Group, was conducting infrastructure construction project. In addition, the Group also constructed Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period, which led to an increase in relevant costs. Such cost accounted for 11.5% and 19.2% of the total cost of sales and services for the years ended 31 December 2018 and 2019, respectively.

1.3 *Gross profit and gross profit margin*

As a result of above, our gross profit increased by 34.8% from approximately RMB278.4 million for the year ended 31 December 2018 to approximately RMB375.4 million during the Reporting Period, which was attributable to the increase in water sales and charged wastewater volume. Gross profit margin decreased from 22.9% for the year ended 31 December 2018 to 18.2% during the Reporting Period. This was mainly due to the surge in the proportion of revenue from low-margin infrastructure construction and upgrade.

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 108.6% from approximately RMB26.8 million for the year ended 31 December 2018 to approximately RMB55.9 million during the Reporting Period. The gross profit margin increased from 11.4% for the year ended 31 December 2018 to 17.6% 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 increased by 23.7% from approximately RMB159.8 million for the year ended 31 December 2018 to approximately RMB197.6 million during the Reporting Period. The corresponding gross profit margin increased from 56.5% for the year ended 31 December 2018 to 67.8% during the Reporting Period. Such increase was mainly due to the slump in the number of low-margin water meter renovation projects that require “Three supplies and one property”.

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 from approximately RMB1,036,000 for the year ended 31 December 2018 to approximately RMB1,622,000 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 gross profit margins were 0.3% and 0.2% for the years ended 31 December 2018 and 31 December 2019, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating service

The gross profit of the Group for sewage treatment operating services increased by 27.4% from approximately RMB50.3 million for the year ended 31 December 2018 to approximately RMB64.1 million during the Reporting Period. The corresponding gross profit margin decreased from 25.9% for the year ended 31 December 2018 to 24.0% during the Reporting Period. Such decrease was mainly due to the rising cost of wastewater treatment resulting from stricter environmental protection requirements.

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 RMB116,000 for the year ended 31 December 2018 to approximately RMB389,000 during the Reporting Period. The increase was mainly because newly acquired Fanxing Environmental was building wastewater treatment infrastructure in rural areas. In addition, the Group also constructed Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period. The gross profit margin for the construction of wastewater treatment infrastructure for both years ended 31 December 2018 and 2019 was 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 RMB28.5 million for the year ended 31 December 2018 to approximately RMB35.5 million during the Reporting Period. The increase was mainly because the balance of the Group's listed funds raised from the initial global offering had (in Hong Kong dollars) decreased and there were the changes of exchange rates, resulting in change from the exchange loss was approximately RMB9.7 million in 2018 to the exchange gain was approximately RMB192,000 during the Reporting Period.

1.5 Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 36.8% from approximately RMB13.3 million for the year ended 31 December 2018 to approximately RMB18.2 million during the Reporting Period. The increase was primarily due to the increase in staff costs resulting from the expanded supply area and increased number of staff and the sales costs of Weiyuan Qingxi Water acquired in September 2018.

1.6 Administrative Expenses

The Group's administrative expenses increased by 21.1% from approximately RMB69.8 million for the year ended 31 December 2018 to RMB84.5 million during the Reporting Period. This was mainly due to the increase in staff cost as a result of expanded supply area and increased number of staff, the rise of administrative expenses of Weiyuan Qingxi Water and Weiyuan Installation Company acquired in September 2018. Additionally, administrative expenses of Fanxing Environmental acquired by the Group in February 2019 also led to an increase in administrative expenses this year.

1.7 Finance Costs

The Group's finance costs increased by 105.4% from approximately RMB37.2 million for the year ended 31 December 2018 to approximately RMB76.4 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

The income tax expenses increased from approximately RMB19.4 million for the year ended 31 December 2018 to approximately RMB30.5 million during the Reporting Period. For the years ended 31 December 2018 and 2019, the actual tax rates of the Group were 10.4% and 13.1%, respectively. The increase was primarily because the deferred revenue from installation of water meters subject to deferred tax in 2018 were reversed during the Reporting Period.

1.9 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group increased by 16.0% from approximately RMB167.2 million for the year ended 31 December 2018 to approximately RMB201.5 million during the Reporting Period. The profit margin after tax decreased from 13.7% for the year ended 31 December 2018 to 9.7% 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 RMB39.9 million and RMB56.7 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the increase of non-infrastructures related machines and official equipment. In addition, the Group acquired Fanxing Environmental Protection and established Leshan Xingjia during the Reporting Period, leading to the increase of the machines, official equipment and fixed installation.

2.2 Intangible Assets

Intangible assets of the Group were approximately RMB1,947.2 million and RMB2,714.2 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the completion of the construction of the project and upgrade work.

2.3 Receivables under Service Concession Arrangements

The receivables under service concession arrangements of the Group were approximately RMB851.0 million and RMB1,169.1 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the acquisition of Fanxing Environmental and the construction of Erdaoxi Phase III and Xuyong Phase 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 RMB33.0 million and RMB45.4 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the expansion of the installation business of water meters during the Reporting Period, leading to a larger amount of reserved 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	
	2019	2018
Average inventory turnover days ⁽¹⁾	26	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 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 increased from 23 days for the year ended 31 December 2018 to 26 days during the Reporting Period. The increase was mainly due to a larger amount of reserved material for water meter renovation projects as at the end of the Reporting Period.

2.5 Trade Receivables

Our trade receivables were approximately RMB129.2 million and RMB270.0 million as at 31 December 2018 and 2019, respectively.

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

	For the year ended	
	31 December	
	2019	2018
Average trade receivables turnover days ⁽¹⁾	78	56

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 56 days for the year ended 31 December 2018 to 78 days during the Reporting Period. The increase was mainly due to wastewater emergency projects, and the temporary unsettlement of water charge by the Group and People's Government of Jiangyang District, Luzhou City, while we practically strengthened our management policy of recycled trading receivables.

2.6 Trade Payables

Our trade payables were approximately RMB43.4 million and RMB54.1 million as at 31 December 2018 and 2019, respectively.

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

	For the year ended 31 December	
	2019	2018
Average trade payables turnover days ⁽¹⁾	32	25

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 25 days for the year ended 31 December 2018 to 32 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 material during the Reporting Period.

2.7 Trade and Construction Payables

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

	For the year ended	
	31 December	
	2019	2018
Average trade payables and construction payables turnover days ⁽¹⁾	102	101

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 101 days for the year ended 31 December 2018 to 102 days during the Reporting Period. The increase was mainly due to the increase in construction payables of various tap water supply projects (including Naxi water plant and Huangxi water plant and Nanjiao second water plant (phase II)) and water treatment projects (including Erdaoxi phase III project and Xuyong phase II project).

2.8 Deferred Income – government grants

Deferred income of the Group was approximately RMB168.7 million and RMB173.8 million as at 31 December 2018 and 2019, respectively. The increase was mainly due to the receipt of grants supplied by the government for Erdaoxi phase III project and Changbin Road pipeline 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 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 RMB1,095.9 million (at the end of 2018: approximately RMB547.7 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB1,423.6 million (at the end of 2018: approximately RMB844.4 million), including bank and other borrowings, of which, approximately 61.7% of bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was 48.2% (at the end of 2018: 15.2%).

On 26 April 2019, the Company successfully issued the first tranche of corporate bonds in the principal amount of RMB500 million, at a coupon rate of 5.99% and with a bond maturity of five years. Details of this tranche of corporate bonds are set out on the website of Shanghai Stock Exchange ([http: www.sse.com.cn](http://www.sse.com.cn)).

On 23 September 2019, the Company successfully issued the second tranche of corporate bonds in the principal amount of RMB200 million, at a coupon rate of 5% and with a bond maturity of five years. Details of this tranche of corporate bonds are set out on the website of Shanghai Stock Exchange ([http: www.sse.com.cn](http://www.sse.com.cn)).

III. OTHER INFORMATION

(I) Employees and Remuneration Policy

As at the end of the Reporting Period, the Group had 940 employees (at the end of 2018: 849). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB161.2 million (2018: approximately RMB142.1 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 a 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\$395.51 million of the proceeds from the initial public offering had been used by the Group in the manner disclosed in the prospectus of the Company dated 21 March 2017 and approximately HK\$5.29 million of the proceeds had not yet been used.

Please refer to the table below for details:

Use of proceeds	Amount <i>HK\$ million</i>	Amount used <i>HK\$ million</i>	Amount unused <i>HK\$ million</i>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	34.79	5.29
Total	<u>400.8</u>	<u>395.51</u>	<u>5.29</u>

(III) Major Acquisitions, Disposals and Future Plans for Material Investments or Capital Assets

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 transfer, Fanxing Environmental became a non-wholly owned subsidiary of the Company and its results were 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.

Save as disclosed above, during the Reporting Period, the Company has no other arrangements for major acquisitions or disposals of subsidiaries, associates and joint ventures.

Save as disclosed in this announcement, as at the date of this announcement, the Company did not have any other future plans for major investments or capital assets.

(IV) PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, there were some bank borrowings of the Group that 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, the charging right for certain wastewater treatment fees and the 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.

(V) 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. At the end of the Reporting Period, the Group has unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognized net foreign exchange gains of approximately RMB192,000 during 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) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB57.77 million (2018: approximately RMB57.27 million), which mainly represents the Group's equity investment 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 equity instruments investments are measured at fair value through other comprehensive income.

(VIII) EVENTS AFTER THE REPORTING PERIOD

On 2 January 2020, the Company, together with 德昌縣興德投資有限責任公司(Dechang Xingde Investment Co., Ltd.) and 四川康浩建設工程有限責任公司(Sichuan Kanghao Construction Engineering Co., Ltd.), jointly funded the establishment of 德昌縣興瀘水務有限公司(Dechang Xinglu Water Co., Ltd., “**Dechang Water**”) with a registered capital of RMB17,739,000. Dechang Water is primarily engaged in wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.

On 13 December 2019, the Company entered into agreement with 中蓉投建實業有限公司(Zhongrong investment and Construction Industry Co., Ltd.) for the establishment of 成都市青白江興瀘水務有限公司(Chengdu Qingbaijiang Xinglu Water Co., Ltd., “**Qingbaijiang Water**”) with a registered capital of RMB34,711,400. Qingbaijiang Water is primarily engaged in wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The contribution payable by the Company was made on 6 January 2020.

On 18 February 2020, the Company, together with 雷波縣金沙江國有資產經營有限公司 (Leibo Jinshajiang State-owned Assets Management Co., Ltd.), jointly funded the establishment of 雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd., “**Leibo Water**”) with a registered capital of RMB60,000,000. Leibo Water is primarily engaged in tap water supply and the installation of tap water pipeline and equipment. The Company holds 51% equity interest in Leibo Water which is accounted for as its subsidiary impact of Coronation to the Company.

(IX) FINAL DIVIDEND

The Board proposed to distribute final dividends of RMB0.06 per share (tax inclusive) for the year ended 31 December 2019 (2018: RMB0.06 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Wednesday, 8 July 2020 (the “**Record Date**”) (subject to the approval of Shareholders on the annual general meeting (the “**AGM**”) to be held on Friday, 12 June 2020), with the total amount being approximately RMB51,583,000. Once approved, the final dividends will be paid on or before Thursday, 30 July 2020.

Under the relevant tax rules and regulations of the PRC (collectively, the “**PRC Tax Law**”), the Company is required to withhold and pay EIT 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 on behalf of them.

In accordance with the PRC Tax Law, the Company is also required to withhold and pay individual income tax when distributing final dividends to individual Shareholders whose names appeared on the H Shares register of members of the Company on behalf them. 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 would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the tax treaties.

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

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

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

(X) CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 13 May 2020 to Friday, 12 June 2020 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the AGM is Wednesday, 13 May 2020. In order to be qualified to attend and vote at the AGM, 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 H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Tuesday, 12 May 2020.

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Friday, 3 July 2020 to Wednesday, 8 July 2020 (both days inclusive), during which period no transfer of Shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Wednesday, 8 July 2020. In order to be qualified to obtain 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 H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Thursday, 2 July 2020.

(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 chairperson of the committee. The primary responsibilities of our 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 chairperson of the 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 chairperson 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 of

the Company 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 this announcement of annual results.

(XX) OTHER

Since the outbreak of novel coronavirus ("COVID-19") in mainland China in early 2020, subsequent quarantine measures and travel restrictions in other countries were adopted by the mainland government. Most of the Group's business are located in Sichuan Province, the PRC. Due to the mandatory quarantine measures taken by the government, the Group had to stop construction activities from February 2020 to control the spread of the epidemic.

In March 2020, the region where the Company located was identified as a low-risk area. As of the date when these financial statements were approved for issuance, the Company has resumed the overall production. The Directors believe that COVID-19 has basically no impact on the consolidated financial statements of the Group.

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 2019 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 2019 will be dispatched to the Shareholders and released on the above 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
27 March 2020

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