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 2020

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020:

- Revenue amounted to approximately RMB1,170.6 million, representing an increase of approximately 41.3% from the same period of last year.
- Profit for the period amounted to approximately RMB103.9 million, representing an increase of approximately 4.4% from the same period of last year.
- Profit for the period attributable to owners of the Company amounted to approximately RMB96.9 million, representing an increase of approximately 3.5% from the same period of last year.
- Basic earnings per share for both periods amounted to approximately RMB0.11.
- The Board did not recommend the distribution of any interim dividend for the six months ended 30 June 2020.

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 2020 (the "**Reporting Period**") together with comparative figures for the same period in 2019 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 2020

		Six months ended 30 June	
		2020	2019
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	3		
Tap water supply		**147,105**	139,548
Wastewater treatment operating services		**144,605**	126,300
Interest income		**38,030**	23,068
Installation services		**170,416**	124,995
Construction and upgrade services of infrastructure		**670,398**	414,496
Total revenue		**1,170,554**	828,407
Cost of sales and services		**(959,472)**	(658,394)
Gross profit		**211,082**	170,013
Other income, expenses, gains and losses, net	5	**12,725**	16,310
Impairment losses under expected credit loss model, net of reversal		**(3,888)**	(937)
Distribution and selling expenses		**(5,501)**	(8,725)
Administrative expenses		**(32,220)**	(33,395)
Finance costs	6	**(53,039)**	(29,831)
Share of loss of an associate		**(5)**	–
Profit before tax		**129,154**	113,435
Income tax expense	7	**(25,288)**	(13,982)
Profit for the period		**103,866**	99,453

	NOTE	Six months ended 30 June **2020** ***RMB'000*** **(unaudited)**	 2019 *RMB'000* (unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income (before tax)		**(479)**	267
Deferred income tax on fair value gain (loss) on investments in equity instruments at fair value through other comprehensive income		**120**	(67)
Other comprehensive (expense) income for the period, net of income tax		**(359)**	200
Total comprehensive income for the period		**103,507**	99,653
Profit for the period attributable to:			
– Owners of the Company		**96,875**	93,611
– Non-controlling interests		**6,991**	5,842
		103,866	99,453
Total comprehensive income for the period attributable to:			
– Owners of the Company		**96,516**	93,811
– Non-controlling interests		**6,991**	5,842
		103,507	99,653
Earnings per share *(RMB)*	9		
– Basic		**0.11**	0.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTE	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Non-Current Assets			
Property, plant and equipment		**78,798**	56,663
Right-of-use assets		**76,734**	76,893
Contract assets		**168,844**	181,203
Investment properties		**13,513**	12,173
Intangible assets		**3,058,581**	2,714,174
Goodwill		**25,278**	25,278
Prepayments and other receivables		**37,481**	14,526
Receivables under service concession arrangements		**1,448,821**	1,146,359
Equity instruments at fair value through other comprehensive income		**57,286**	57,765
Interest in an associate		**1,745**	–
Deferred tax assets		**24,552**	29,925
		4,991,633	4,314,959
Current Assets			
Inventories		**35,525**	45,351
Receivables under service concession arrangements		**25,868**	22,784
Trade receivables	10	**375,662**	269,913
Contract assets		**18,548**	18,209
Prepayments and other receivables		**35,474**	38,784
Prepaid income tax		**8,916**	9,726
Bank balances and cash		**890,858**	1,095,877
		1,390,851	1,500,644

	NOTE	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Current Liabilities			
Trade payables	11	**72,910**	54,134
Other payables		**924,583**	793,888
Lease liabilities		**37**	37
Contract liabilities		**218,260**	226,379
Tax liabilities		**8,135**	4,107
Borrowings		**569,562**	491,932
Provisions		**64,676**	3,657
		1,858,163	1,574,134
Net Current Liabilities		**(467,312)**	(73,490)
Total Assets Less Current Liabilities		**4,524,321**	4,241,469
Capital and Reserves			
Share capital		**859,710**	859,710
Share premium and reserves		**1,204,635**	1,159,702
Equity attributable to owners of the Company		**2,064,345**	2,019,412
Non-controlling interests		**143,579**	108,066
Total Equity		**2,207,924**	2,127,478
Non-Current Liabilities			
Deferred tax liabilities		**16,471**	17,776
Lease liabilities		**29**	46
Borrowings		**1,161,979**	931,641
Deferred income – government grants		**178,463**	173,849
Bonds payable		**697,207**	696,898
Provisions		**262,248**	293,781
		2,316,397	2,113,991
		4,524,321	4,241,469

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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**").

The Group had net current liabilities of RMB467,312,000 as at 30 June 2020. In the opinion of the directors of the Company, the consolidated financial statements of the Group have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations and the current bank facilities available to the Group as at 30 June 2020.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed have stopped the Group's installation and construction and upgrade activities from February 2020 to March 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the PRC government has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic to the Group. As such, the financial positions and performance of the Group were affected in different aspects, including reduction of retirement benefit scheme contributions in respect of COVID-19-related subsidies and rent concessions allowed to certain lessees.

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 additional accounting policies resulting from application of 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 2020 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	*Definition of a Business*
Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*

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

Impacts of application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Type of services		
Tap water supply		
– Tap water	**147,105**	139,548
– Installation services	**170,416**	124,995
– Construction and upgrade services of tap water supply infrastructure	**352,335**	240,457
	669,856	505,000
Wastewater treatment		
– Operating services	**144,605**	126,300
– Construction and upgrade services of wastewater treatment infrastructure	**318,063**	174,039
	462,668	300,339
Revenue from contracts with customers	**1,132,524**	805,339
Wastewater treatment		
– Interest income	**38,030**	23,068
Revenue	**1,170,554**	828,407
Timing of revenue recognition		
At a point in time	**291,710**	265,848
Over time	**840,814**	539,491
	1,132,524	805,339
Type of customers		
Government	**826,270**	545,919
Non-government	**306,254**	259,420
	1,132,524	805,339

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

The reconciliation of the revenue from contracts with customers with the segment revenue 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 of the Company, 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 of the Company, 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 reportable segment:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**147,105**	139,548
– Installation services	**170,416**	124,995
– Construction and upgrade services of tap water supply infrastructure	**352,335**	240,457
– Inter-segment sales*		
– Tap water	**47**	80
Wastewater treatment		
– From external customers		
– Operating services	**144,605**	126,300
– Interest income on receivables under service concession arrangements and contract assets	**38,030**	23,068
– Construction and upgrade services of wastewater treatment infrastructure	**318,063**	174,039
Elimination*	**(47)**	(80)
Revenue	**1,170,554**	828,407
Segment results		
– Tap water supply**	**52,411**	47,931
– Wastewater treatment	**51,455**	51,522
Profit after tax	**103,866**	99,453

* Inter-segment sales for the six months ended 30 June 2019 and 2020 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 reportable segment:

	At 30 June 2020 *RMB'000* (unaudited)	At 31 December 2019 *RMB'000* (audited)
Segment assets		
– Tap water supply	**3,970,989**	3,849,127
– Wastewater treatment	**2,461,531**	2,015,976
Elimination	**(50,036)**	(49,500)
Consolidated total assets	**6,382,484**	5,815,603
Segment liabilities		
– Tap water supply	**2,764,684**	2,617,314
– Wastewater treatment	**1,459,912**	1,120,311
Elimination	**(50,036)**	(49,500)
Consolidated total liabilities	**4,174,560**	3,688,125

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	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**3,092**	3,468
Deferred income in respect of government grants recognised	**3,274**	3,995
Value-added-tax ("**VAT**") refunds *(Note (a))*	**3,107**	4,212
Commission income on garbage fees collected for governmental bureau	**2,204**	1,800
Late charges on tap water users	**519**	1,802
Rental income less outgoings *(Note (b))*	**229**	548
Gains (losses) on disposal of property, plant and equipment, net	**321**	(11)
Donations	**(134)**	–
Foreign exchange gains (losses), net	**24**	(207)
Others *(Note (c))*	**89**	703
	12,725	16,310

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 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.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank borrowings	**32,596**	20,303
Interest on other borrowings	**10,000**	5,800
Unwinding of the discount	**6,826**	5,099
Interest on lease liabilities	**1**	1
Interest on bonds payable	**20,285**	5,062
	69,708	36,265
Less: Amount capitalised in qualified assets	**(16,669)**	(6,434)
	53,039	29,831

Borrowing costs capitalised during the six months ended 30 June 2020 arose on the specific and general borrowing pool and the latter are calculated by applying a capitalisation rate of 5.18% (six months ended 30 June 2019: (unaudited) 5.0%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**21,100**	19,538
Deferred tax-current period	**(3,159)**	(5,556)
Deferred tax-attributable to change in tax rate *(Note (a))*	**7,347**	–
Total income tax recognised in profit or loss	**25,288**	13,982

Under the Law of the PRC 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 2020 (six months ended 30 June 2019: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate **Six months ended 30 June 2020**	 Six months ended 30 June 2019
The Company *(Note (a))*	**15%**	15%
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%**	15%
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%**	15%
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%**	15%
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%**	15%
瀘州市南郊水業有限公司(Luzhou Nanjiao Water Co., Ltd.) *(Note (a))*	**15%**	15%
瀘州市四通自來水工程有限公司(Luzhou Sitong Tap Water Engineering Co., Ltd.) ("**Sitong Engineering**")	**20% *Note (c)***	15% *Note (a)*
瀘州市興瀘污水處理有限公司(Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("**Xinglu Wastewater Treatment**") *(Notes (a) and (b))*	**7.5% or 15%**	7.5% or 15%
瀘州市四通給排水工程設計有限公司(Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("**Sitong Design**")	**20% *Note (c)***	15% *Note (a)*
瀘州市興合水環境治理有限公司(Luzhou Xinghe Water Governance Co., Ltd.) *(Note (a))*	**15%**	15%
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%**	15%
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.) *(Note (a))*	**15%**	15%

Name of company	**Applicable EIT rate** **Six months ended 30 June 2020**	 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%**	20%
瀘州市繁星環保發展有限公司(Luzhou Fanxing Environmental Development Co., Ltd.) ("**Fanxing Environmental**") *(Note (b))*	**Nil**	Nil
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%**	N/A
成都市青白江興瀘水務有限公司(Chengdu Qingbaijiang Xinglu Water Co., Ltd.) ("**Qingbaijiang Water**") *(Notes (c) and (d))*	**20%**	N/A
德昌縣興瀘水務有限公司(Dechang Xinglu Water Co., Ltd.) ("**Dechang Water**") *(Notes (c) and (d))*	**20%**	N/A
雷波縣興瀘水務有限公司(Leibo Xinglu Water Co., Ltd.) ("**Leibo Water**") *(Notes (c) and (d))*	**20%**	N/A

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 2020. Therefore these entities enjoy the preferential EIT rate of 15% for the period.

   In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, 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% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 30 June 2020.

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 7.5% for the six months ended 30 June 2019 and 2020.

   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 and 2020.

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]), Sitong Engineering, Sitong Design, Leshan Xingjia, Yongxing Water, Qingbaijiang Water, Dechang Water and Leibo Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.

d. Qingbaijiang Water, Dechang Water and Leibo Water were established on 13 December 2019, 2 January 2020 and 18 February 2020, respectively.

8. DIVIDEND

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 2019 (six months ended 30 June 2019: (unaudited) RMB51,583,000 or RMB0.06 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 2020 (six months ended 30 June 2019: (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	
	2020	2019
	(unaudited)	(unaudited)
Profit for the period attributable to the owners of the Company *(RMB'000)*	**96,875**	93,611
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 2020 and 2019 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

10. TRADE RECEIVABLES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**379,759**	271,608
Less: Allowance for credit losses	**(4,097)**	(1,695)
	375,662	269,913

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.

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 2020 *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
Within 3 months	**186,338**	165,956
Between 3 months and 6 months	**54,577**	36,419
Between 6 months and 12 months	**88,094**	31,833
Over 1 year	**46,653**	35,705
	375,662	269,913

11. TRADE PAYABLES

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

	At 30 June 2020 *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
Within 6 months	**58,003**	42,204
Between 6 months and 12 months	**5,369**	4,463
Over 1 year	**9,538**	7,467
	72,910	54,134

The credit period on purchases are generally within 6 months.

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

On 3 February 2020, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the "Guideline on Building a Modern Environmental Governance System" (《關於構建現代環境治理體系的指導意見》) (the "**Guideline**"), which stresses that government agencies shall take the lead and corporate entities, social organisations and the public shall play their parts in the construction of a modern environmental governance system, and that the market system for environmental governance will be improved through developing market regulatory standards, strengthening industrial support, innovating governance models and optimizing charging mechanisms. It is expected that the Guideline will bring opportunities for the healthy development of the water industry. On 17 May 2020, the Central Committee of the Communist Party of China and the State Council jointly issued the Guideline on Advancing the Development of Western Regions in New Era to Promote Coordinated Regional Development (《關於新時代推進西部大開發形成新格局的指導意見》)(the "**WR Guideline**"), proposing to optimize the patterns and forms of urbanization according to local conditions, enhance the functions and roles of national and regional major cities, promote the quality development of city clusters and the rational distribution of cities of different sizes, boost the integration of urban and rural water supply and the construction of key small standardized water supply facilities in sparsely populated areas, and strengthen the standardized development of drinking water sources. As such, the WR Guideline serves as a strong policy support to the water industry in the western regions. In addition, on 3 June 2020, the National Development and Reform Commission and the Ministry of Natural Resources jointly issued the Master Plan for Major Projects of Conservation and Restoration of National Key Ecosystems (2021-2035)(全國重要生態系統保護和修復重大工程總體規劃(2021-2035)》)(the "**Master Plan**"), which puts forward the basic principles for ecological governance and conservation in several key areas including the Key Ecological Area of the Yangtze River (including Sichuan-Yunnan ecological shield). The Master Plan will bring development opportunities to water enterprises in the regions.

Thanks to favorable government policies, water businesses have been evolving towards group-based, large-scaled and integrated operations, which will eventually give rise to a new competition landscape in the water industry featuring a handful of competing cross-region integrated water conglomerates with mixed ownerships. During the "14th Five-Year Plan" period, the Company shall focus its efforts on seizing the development opportunity arising from the opening up of the water market, mapping out a suitable corporate development strategy, and fully tapping the synergies and comprehensive service capability of various business segments, so as to stay ahead of fierce competition.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2020, the Company will, in consistent adherence to the philosophy of "reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development", pursue reforms and innovation while consolidating its existing business, and strive to provide high-quality services for the vast number of users, develop smart water services, and ensure safe and efficient water supply and up-to-standard wastewater treatment and discharge. In addition, the Company will further enhance its internal governance capacity, keep up with the trend of the times and the developments of macro policies, further dig into the local markets and expand into other regions, promote the consolidation of internal resources of the Group, and centralize the management of several business segments such as water supply and drainage, thereby facilitating its rapid and high standard development.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, principally engaged in 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 maximum period of 30 years. The Company mainly carries on business in Luzhou City, Weiyuan area in Neijiang City, Leshan City, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 wastewater treatment plants and several township wastewater treatment plants, with a total treatment capacity of approximately 857,500 tons per day. We also operated several wastewater treatment facilities in townships and rural areas.

Tap Water Project

As at the end of the Reporting Period, the Group owned 12 tap water supply plants with a daily supply capacity of approximately 496,500 tons, representing an increase of two tap water plants and approximately 5,000 tons of daily water supply capacity as compared with that as at 31 December 2019. The average utilisation rate of tap water plants stood at 88.9%.

During the Reporting Period, the total sales of water amounted to approximately 65.9 million tons, representing an increase of 7.9% as compared to approximately 61.1 million tons for the six months ended 30 June 2019. The increase was mainly due to the extended water supply areas in cities.

Wastewater Treatment Project

As at the end of the Reporting Period, the Group owned 9 operating wastewater treatment plants and several township wastewater treatment plants, with a daily treatment capacity of approximately 361,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 83.8%.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 56.7 million tons, representing an increase of 8.8% as compared with approximately 52.1 million tons for the six months ended 30 June 2019. Our total volume of wastewater treatment with charges amounted to approximately 67.4 million tons, representing an increase of 4.3% as compared with approximately 64.6 million tons for the six months ended 30 June 2019. The increase was mainly attributable to the commencement of trial operation of the completed part of the Erdaoxi Project Phase III and commencement of operation of township wastewater treatment plants upon completion, which increased our wastewater treatment volume and our total volume of wastewater treatment with charges.

(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 41.3% from approximately RMB828.4 million for the six months ended 30 June 2019 to approximately RMB1,170.6 million for the Reporting Period. The increased revenue was mainly from infrastructure construction and upgrade services and installation services.

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 5.4% from approximately RMB139.5 million for the six months ended 30 June 2019 to approximately RMB147.1 million for the Reporting Period. The increase was mainly attributable to the increase in tap water sales volume during the Reporting Period. Revenue generated from sales of tap water accounted for 16.8% and 12.6% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.1.2 Installation services

Revenue of the Group generated from installation services increased by 36.3% from approximately RMB125.0 million for the six months ended 30 June 2019 to approximately RMB170.4 million for the Reporting Period. The increase mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation and maintenance services accounted for 15.1% and 14.6% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.1.3 Construction and upgrade tap water supply infrastructure services

Revenue of the Group generated from construction and upgrade tap water supply infrastructure services increased by 46.5% from approximately RMB240.5 million for the six months ended 30 June 2019 to approximately RMB352.3 million for the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction, and water-supply pipeline installation projects increased.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 14.5% from approximately RMB126.3 million for the six months ended 30 June 2019 to approximately RMB144.6 million for the Reporting Period. The increase was primarily due to the increase in the wastewater treatment capacity and the increase in the volume of wastewater treatment with charges as compared with the same period last year. The volume of wastewater treatment with charges was 64.6 million tons and 67.4 million tons for the six months ended 30 June 2019 and 2020, respectively. Revenue generated from wastewater treatment operation accounted for 15.2% and 12.4% of our total revenue for the six months ended 30 June 2019 and 2020, respectively.

1.1.2.2 Interest income

The Group's interest income increased by 64.5% from approximately RMB23.1 million for the six months ended 30 June 2019 to approximately RMB38.0 million for the Reporting Period. The increase was mainly due to the increased interest income on receivables as a result of the increase in the number of operating facilities of Fanxing Environmental and the commencement of operation of Erdaoxi Project Phase III in the Reporting Period.

1.1.2.3 Construction and upgrade wastewater treatment infrastructure services

Revenue of the Group generated from construction and upgrade wastewater treatment infrastructure services increased by 82.8% from approximately RMB174.0 million for the six months ended 30 June 2019 to approximately RMB318.1 million for the Reporting Period. The increase was primarily due to the construction of Erdaoxi Project Phase III and Xuyong Project Phase II, new facilities of Fanxing Environmental, and the new wastewater plant project of Qingbaijiang Water (a company established in December 2019) during the Reporting Period.

1.2 Cost of sales and services

The Group's cost of sales and services increased by 45.7% from approximately RMB658.4 million for the six months ended 30 June 2019 to approximately RMB959.5 million for the Reporting Period, primarily due to the sharp rise in the cost of infrastructure construction and upgrade services.

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 16.4% from approximately RMB106.0 million for the six months ended 30 June 2019 to approximately RMB123.4 million for the Reporting Period. This was primarily due to the increase in tap water sales and the increase in amortization as a result of commencement of operation of water supply pipeline and other infrastructure to meet water supply needs.

1.2.1.2 Installation services

The cost of sales and services associated with installation services increased by 24.2% from approximately RMB55.4 million for the six months ended 30 June 2019 to approximately RMB68.8 million for the Reporting Period. This was primarily due to the increased installation projects during the Reporting Period, leading to the increased service cost.

1.2.1.3 Construction and upgrade tap water supply infrastructure services

The Group's cost of sales and services associated with construction and upgrade tap water supply infrastructure services increased by 43.5% from approximately RMB239.8 million for the six months ended 30 June 2019 to approximately RMB344.2 million for the Reporting Period. This was mainly because Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction, and new projects of water-supply pipeline installation were started during the Reporting Period.

1.2.2 Wastewater treatment

1.2.2.1 Operating services

The Group's cost of sales and services associated with wastewater treatment operating services increased by 26.2% from approximately RMB83.3 million for the six months ended 30 June 2019 to approximately RMB105.1 million for the Reporting Period. The increase was primarily due to an increase in operating costs resulting from the increased treatment volume of wastewater, and an increase in the cost of pharmacy as a result of stricter environmental protection requirements. Cost of sales and services associated with wastewater treatment operating services accounted for 12.7% and 11.0% of our total cost of sales and services for the six months ended 30 June 2019 and 2020, respectively.

1.2.2.2 Construction and upgrade wastewater treatment infrastructure services

The cost of sales and services associated with construction and upgrade wastewater treatment infrastructure services increased by 82.7% from approximately RMB174.0 million for the six months ended 30 June 2019 to approximately RMB317.9 million for the Reporting Period. The increase was primarily due to the construction of Erdaoxi Project Phase III and Xuyong Project Phase II and the new wastewater plant project of Qingbaijiang Water (a company established in December 2019) during the Reporting Period.

1.3 Gross Profit and Gross Profit Margin

As a result of above, our gross profit increased by 24.2% from approximately RMB170.0 million for the six months ended 30 June 2019 to approximately RMB211.1 million for the Reporting Period. The increase was mainly due to the increase in construction operation of installation services and infrastructure construction and upgrade services during the Reporting Period. The gross profit margin decreased from 20.5% for the six months ended 30 June 2019 to 18.0% for the Reporting Period. Such decrease was primarily due to the decrease in gross profit margin from both sale of tap water and wastewater treatment operating services as well as higher percentage of revenue contributed by infrastructure construction and upgrade services with lower gross profit margin for the Reporting Period.

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 29.5 % from approximately RMB33.6 million for the six months ended 30 June 2019 to approximately RMB23.7 million for the Reporting Period. The corresponding gross profit margin decreased from 24.0% for the six months ended 30 June 2019 to 16.1% for the Reporting Period. Such decrease was mainly due to the relatively large increase in amortization as a result of commencement of operation of new water supply pipelines and other infrastructure during the Reporting Period.

1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 46.0% from approximately RMB69.6 million for the six months ended 30 June 2019 to approximately RMB101.6 million for the Reporting Period. The corresponding gross profit margin increased from 55.7% for the six months ended 30 June 2019 to 59.6% for the Reporting Period. Such increase was mainly due to completion of more real estate projects with higher gross profit margin.

1.3.1.3 Construction and upgrade tap water supply infrastructure services

The gross profit of the Group for construction and upgrade tap water supply infrastructure services increased from approximately RMB0.7 million for the six months ended 30 June 2019 to approximately RMB8.1 million for the Reporting Period. Such significant increase was primarily due to higher gross profit from Nanjiao Second Water Plant (Phase II), a new self-constructed project. The corresponding gross profit margins were 0.3% and 2.3% for the six months ended 30 June 2019 and 2020, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating services

The gross profit of the Group for wastewater treatment operating services decreased by 8.1% from approximately RMB43.0 million for the six months ended 30 June 2019 to approximately RMB39.5 million for the Reporting Period. The corresponding gross profit margin decreased from 34.1% for the six months ended 30 June 2019 to 27.3% for the Reporting Period. The decrease was mainly due to the increase in the cost of pharmacy as a result of stricter environmental protection requirements during the Reporting Period.

1.3.2.2 Construction and upgrade wastewater treatment infrastructure services

The gross profit of the Group for construction and upgrade wastewater treatment infrastructure services increased from approximately RMB70,000.0 for the six months ended 30 June 2019 to approximately RMB162,000.0 for the Reporting Period. The increase was mainly due to construction of Erdaoxi Project Phase III and Xuyong Project Phase II by the Group during the Reporting Period.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net decreased from approximately RMB16.3 million for the six months ended 30 June 2019 to approximately RMB12.7 million for the Reporting Period. The decrease was mainly due to the decrease in VAT refunds for wastewater treatment fees for the Reporting Period as well as the decrease in late charges on tap water users as compared with those of the six months ended 30 June 2019.

1.5 Distribution and Selling Expenses

The Group's selling and distribution expenses decreased by 36.8% from approximately RMB8.7 million for the six months ended 30 June 2019 to approximately RMB5.5 million for the Reporting Period. The decrease was primarily because Luzhou Social Security Bureau exempted the basic pension insurance, unemployment insurance and occupational injury insurance (the "**Three Insurances**") and allowed 50% reduction of medical insurance, following the related policies of the State Council in relation to the Three Insurances.

1.6 Administrative Expenses

The Group's administrative expenses decreased by 3.6% from approximately RMB33.4 million for the six months ended 30 June 2019 to RMB32.2 million for the Reporting Period. The decrease was mainly because Luzhou Social Security Bureau exempted the Three Insurances and allowed 50% reduction of medical insurance, following the related policies of the State Council in relation to the Three Insurances.

1.7 Finance Costs

The Group's finance costs increased by 77.9% from approximately RMB29.8 million for the six months ended 30 June 2019 to approximately RMB53.0 million for the Reporting Period. The increase was primarily due to a rise in interest expense incurred from the matters including the increase in borrowings and the financing lease payment obtained by the Group for the Reporting Period as compared to those of the six months ended 30 June 2019.

1.8 Income Tax Expense

In line with the increase in profit before tax, the income tax expenses increased by 80.7% from approximately RMB14.0 million for the six months ended 30 June 2019 to approximately RMB25.3 million for the Reporting Period. For the six months ended 30 June 2019 and 2020, the effective tax rates of the Group were 12.3% and 19.6%, respectively. Income tax expenses increased significantly as compared with that of the six months ended 30 June 2019. On one hand, the income tax expenses increased due to the increase in profit before tax for the Reporting Period; on the other hand, with the extension of the preferential tax policy for the Development of Western Region to 2030, the tax rate of temporary difference to be reversed has been generally changed from 25% to 15%, resulting in a significant in deferred income tax expenses.

1.9 Profit after Tax and Profit Margin after Tax

As impacted by the significant increase in income tax expenses above, the profit after tax only increased by 4.4% from approximately RMB99.5 million for the six months ended 30 June 2019 to approximately RMB103.9 million for the Reporting Period. Our profit margin after tax decreased from 12.0% for the six months ended 30 June 2019 to 8.9% for 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 RMB56.7 million and approximately RMB78.8 million as at 31 December 2019 and the end of the Reporting Period, respectively.

Such increase was mainly attributable to the increase of non-infrastructures related machines, office equipment and others. In addition, the Group established Leibo Water 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 RMB2,714.2 million and approximately RMB3,058.6 million as at 31 December 2019 and the end of the Reporting Period, respectively. The increase was mainly due to the completion of the construction and upgrade work of engineering projects.

2.3 Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements were approximately RMB1,169.1 million and approximately RMB1,474.7 million as at 31 December 2019 and the end of the Reporting Period, respectively. The increase was mainly due to the increase in facilities put into operation by Fanxing Environmental, and commencement of operation of part of Erdaoxi Project Phase III 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 RMB45.4 million and approximately RMB35.5 million as at 31 December 2019 and the end of the Reporting Period, respectively. The decrease was mainly because the Company prepared part of the relevant materials at the end of 2019 for use in 2020 based on the demands for transformation of general water meters under relevant policies, and the inventories decreased accordingly as the transformation projects were carried out during the Reporting Period.

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

	Six months ended 30 June	
	2020	2019
Average inventory turnover days [(1)]	**8**	12

(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 in calculating average inventory turnover days because our inventories 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 12 days for the six months ended 30 June 2019 to 8 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 RMB270.0 million and RMB375.7 million as at 31 December 2019 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	
	2020	2019
Average trade receivables turnover days [(1)]	**50**	35

(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 increased from 35 days for the six months ended 30 June 2019 to 50 days for the Reporting Period. Such increase was primarily because the payment of wastewater treatment fees was delayed as impacted by COVID-19 pandemic, while we practically strengthened our management policy on collection of trade receivables.

2.6 Trade Payables

Our trade payables were RMB54.1 million and RMB73.0 million as at 31 December 2019 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	
	2020	2019
Average trade payables turnover days [(1)]	**12**	13

(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 13 days for the six months ended 30 June 2019 to 12 days for the Reporting Period. Such decrease was mainly because the Group strengthened the management of payables 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	
	2020	2019
Average trade payables and construction payables turnover days [(1)]	**135**	78

(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 78 days for the six months ended 30 June 2019 to 135 days for the Reporting Period. Such increase was mainly due to the increase in construction payables of various tap water supply projects (including Beijiao Second Water Plant Project (Phase I), Huangxi Water Plant Project, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project) and wastewater treatment projects (including Erdaoxi Project Phase III and Xuyong Project Phase II).

2.8 *Deferred Income – Government Grants*

Deferred income – government grants of the Group was approximately RMB173.8 million and RMB178.5 million as at 31 December 2019 and the end of Reporting Period, respectively. The increase was mainly due to the receipt of grants supplied by the government for Hushi Town Water Supply Project in Longmatan District as well as Texing Chang'an Water Supply Project in Longmatan District during the Reporting Period.

3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities of the Group will be able to continue as going concerns and optimize the debt and equity balance to maximize 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 bank balances and cash of the Group amounted to approximately RMB890.9 million (31 December 2019: RMB1,095.9 million).

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB3,448.5 million (31 December 2019: RMB2,739.0 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB1,731.5 million (31 December 2019: RMB1,423.6 million), including bank and other borrowings. Approximately 67.1% 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 debts (including long-term and short-term borrowings and bonds payable) less bank balances and cash divided by total equity) was 69.7% (31 December 2019: 48.2%).

The asset-to-debt ratio of the Group (calculated by net debts divided by total assets) increased from approximately 17.6% as at 31 December 2019 to approximately 24.1% as at the end of the Reporting Period. The increase in asset-to-debt ratio was mainly due to the increase in borrowings of the Group during the Reporting Period.

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 963 employees (31 December 2019: 940 employees). For the Reporting Period, employee salaries and benefits expenses amounted to RMB68.4 million (six months ended 30 June 2019: RMB73.3 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.

For 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$395.6 million of the proceeds had been used by the Group in the manner as disclosed in the prospectus and approximately HK$5.2 million of the proceeds had not yet been used.

Use of proceeds	**Amount**	**Amount used**	**Amount unused**
	HK$ million	*HK$ million*	*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	34.89	5.19
Total	400.8	395.61	5.19

(VII) MAJOR ACQUISITIONS, DISPOSALS AND INVESTMENTS

On 13 December 2019, the Company, together with 中蓉投建實業有限公司(Zhongrong Investment and Construction Industry Co., Ltd.), jointly funded the establishment of Qingbaijiang Water with a registered capital of RMB34,711,400. The business scope of Qingbaijiang Water includes wastewater treatment and recycling. The Company holds 99.9% equity interest in Qingbaijiang Water which is accounted for as its subsidiary. The registered capital has been fully paid on 6 January 2020.

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公司(Sichuan Kanghao Construction Engineering Co., Ltd.), jointly funded the establishment of Dechang Water with a registered capital of RMB17,739,000. The business scope of Dechang Water includes wastewater treatment and recycling. The Company holds 88% equity interest in Dechang Water which is accounted for as its subsidiary.

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 Leibo Water with a registered capital of RMB60,000,000. The business scope of Leibo Water includes 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.

Save as disclosed above, during the Reporting Period, the Company has no other arrangements or future plans for major investment, disposal 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 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, charging right for certain wastewater treatment fees, certain buildings and tap water plants of Weiyuan Qingxi Water, charging rights for wastewater treatment projects of Fanxing Environmental in township and rural area in Jiangyang District, Luzhou City, and the equity interests in Fanxing Environmental held by the Group.

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 unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognised net foreign exchange gains of RMB24,000 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 equity investments held by the Group amounted to RMB57.29 million (31 December 2019: RMB57.77 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 equity instrument investments are measured at fair value through other comprehensive income.

(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 2020 (six months ended 30 June 2019: 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 non-executive 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 six months ended 30 June 2020 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 2020 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020 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 2020 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
26 August 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*