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**Luzhou Xinglu Water (Group) Co., Ltd.\***

**瀘州市興瀘水務(集團)股份有限公司**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 2281)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021**

### **FINANCIAL HIGHLIGHTS**

For the six months ended 30 June 2021:

- Revenue amounted to approximately RMB925.6 million, representing a decrease of approximately 20.9% from the same period of last year.
- Profit for the period amounted to approximately RMB128.0 million, representing an increase of approximately 23.2% from the same period of last year.
- Profit for the period attributable to owners of the Company amounted to approximately RMB118.0 million, representing an increase of approximately 21.8% from the same period of last year.
- Basic earnings per share amounted to approximately RMB0.14, representing an increase of approximately 27.3% from the same period of last year.
- The Board did not recommend the distribution of any interim dividend for the six months ended 30 June 2021.

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 2021 (the “**Reporting Period**”) together with comparative figures for the six months ended 30 June 2020 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 2021

		Six months ended	
		2021	2020
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3		
Tap water supply		166,018	147,105
Wastewater treatment operating services		143,864	144,605
Interest income		55,739	38,030
Installation services		226,765	170,416
Construction and upgrade services of infrastructure		333,260	670,398
		<u>925,646</u>	<u>1,170,554</u>
Total revenue		925,646	1,170,554
Cost of sales and services		<u>(677,094)</u>	<u>(959,472)</u>
		<u>248,552</u>	<u>211,082</u>
Gross profit		248,552	211,082
Other income, expenses, gains and losses, net	5	26,013	12,725
Impairment losses under expected credit loss model, net of reversal		(7,741)	(3,888)
Distribution and selling expenses		(10,317)	(5,501)
Administrative expenses		(39,943)	(32,220)
Finance costs	6	(67,739)	(53,039)
Share of loss of an associate		(35)	(5)
Loss on deemed disposal of interest in an associate		<u>(563)</u>	<u>—</u>
		<u>148,227</u>	<u>129,154</u>
Profit before tax		148,227	129,154
Income tax expense	7	<u>(20,263)</u>	<u>(25,288)</u>
		<u>127,964</u>	<u>103,866</u>
Profit for the period		<u><u>127,964</u></u>	<u><u>103,866</u></u>

		Six months ended	
		2021	2020
	NOTES	RMB'000	RMB'000
		(unaudited)	(unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (before tax)		(768)	(479)
Deferred income tax on fair value loss on investments in equity instruments at fair value through other comprehensive income		192	120
Other comprehensive expense for the period, net of income tax		(576)	(359)
Total comprehensive income for the period		127,388	103,507
Profit for the period attributable to:			
– Owners of the Company		117,952	96,875
– Non-controlling interests		10,012	6,991
		127,964	103,866
Total comprehensive income for the period attributable to:			
– Owners of the Company		117,376	96,516
– Non-controlling interests		10,012	6,991
		127,388	103,507
EARNINGS PER SHARE (RMB)			
– Basic	9	0.14	0.11

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

		As at 30 June 2021	As at 31 December 2020
	NOTES	RMB'000 (unaudited)	RMB'000 (audited)
<b>Non-Current Assets</b>			
Property, plant and equipment		57,966	80,814
Right-of-use assets		82,480	83,717
Contract assets		257,377	210,881
Investment properties		13,868	14,323
Goodwill		25,278	25,278
Intangible assets		3,720,474	3,511,312
Equity instruments at fair value through other comprehensive income		1,086	1,854
Interest in an associate		54,004	54,602
Prepayments and other receivables		31,093	42,696
Receivables under service concession arrangements		1,642,644	1,629,149
Deferred tax assets		31,731	28,964
		<b>5,918,001</b>	<b>5,683,590</b>
<b>Current Assets</b>			
Inventories		33,539	33,825
Receivables under service concession arrangements		31,259	30,147
Trade receivables	10	459,228	353,667
Prepayments and other receivables		71,221	53,926
Prepaid income tax		17,370	14,132
Contract assets		24,135	18,531
Bank balances and cash		1,035,310	1,036,193
		<b>1,672,062</b>	<b>1,540,421</b>

		As at 30 June 2021 <i>NOTES</i> <i>RMB'000</i> (unaudited)	As at 31 December 2020 <i>RMB'000</i> (audited)
<b>Current Liabilities</b>			
Trade payables	11	79,145	58,988
Other payables		1,070,394	1,126,272
Tax liabilities		6,010	4,145
Borrowings		459,443	509,744
Lease liabilities		128	128
Provisions		13,868	13,253
Contract liabilities		345,468	277,693
Deferred income – government grants		14,554	13,768
Bonds payable		499,273	–
		<u>2,488,283</u>	<u>2,003,991</u>
<b>Net Current Liabilities</b>		<u>(816,221)</u>	<u>(463,570)</u>
<b>Total Assets Less Current Liabilities</b>		<u><u>5,101,780</u></u>	<u><u>5,220,020</u></u>
<b>Capital and Reserves</b>			
Share capital		859,710	859,710
Reserves		<u>1,383,356</u>	<u>1,316,927</u>
Equity attributable to owners of the Company		2,243,066	2,176,637
Non-controlling interests		<u>181,671</u>	<u>156,295</u>
<b>Total Equity</b>		<u>2,424,737</u>	<u>2,332,932</u>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		20,466	20,749
Borrowings		1,794,699	1,531,824
Lease liabilities		199	199
Provisions		384,998	355,073
Deferred income – government grants		277,346	281,717
Bonds payable		<u>199,335</u>	<u>697,526</u>
		<u>2,677,043</u>	<u>2,887,088</u>
		<u><u>5,101,780</u></u>	<u><u>5,220,020</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

## 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group had net current liabilities of RMB816,221,000 as at 30 June 2021. In the opinion of the Directors, the condensed 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 banking facilities available to the Group as at 30 June 2021. The directors believe the existing bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity date based on prior experiences. As at 30 June 2021, the Group had available unutilised bank loan facilities of RMB1,177,000,000.

## 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

### 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 2021 for the preparation of the Group’s condensed consolidated financial statements.

Amendment to IFRS 16

Covid-19-Related Rent Concessions

Amendments to IFRS 9, IAS 39, IFRS 7,  
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

The application of the 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.

### 3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
<b>Type of services</b>		
Tap water supply		
– Tap water	166,018	147,105
– Installation services	226,765	170,416
– Construction and upgrade services of tap water supply infrastructure	183,990	352,335
	<u>576,773</u>	<u>669,856</u>
Wastewater treatment		
– Operating services	143,864	144,605
– Construction and upgrade services of wastewater treatment infrastructure	149,270	318,063
	<u>293,134</u>	<u>462,668</u>
<b>Revenue from contracts with customers</b>	<u>869,907</u>	<u>1,132,524</u>
Wastewater treatment		
– Interest income	55,739	38,030
<b>Revenue</b>	<u>925,646</u>	<u>1,170,554</u>
<b>Timing of revenue recognition</b>		
At a point in time	309,882	291,710
Over time	560,025	840,814
	<u>869,907</u>	<u>1,132,524</u>
<b>Type of customer</b>		
Government	482,905	826,270
Non-government	387,002	306,254
	<u>869,907</u>	<u>1,132,524</u>

The Group's above revenue are derived in 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	
	2021	2020
	<b>RMB'000</b>	<b>RMB'000</b>
	(unaudited)	(unaudited)
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	166,018	147,105
– Installation services	226,765	170,416
– Construction and upgrade services of tap water supply infrastructure	183,990	352,335
– Inter-segment sales*		
– Tap water	210	47
Wastewater treatment		
– From external customers		
– Operating services	143,864	144,605
– Interest income on receivables under service concession arrangements and contract assets	55,739	38,030
– Construction and upgrade services of wastewater treatment infrastructure	149,270	318,063
Elimination*	(210)	(47)
Revenue	<b>925,646</b>	<b>1,170,554</b>
<b>Segment results</b>		
– Tap water supply**	71,312	52,411
– Wastewater treatment	56,652	51,455
Profit after tax	<b>127,964</b>	<b>103,866</b>

\* Inter-segment sales for the six months ended 30 June 2020 and 2021 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:

	As at <b>30 June</b> <b>2021</b> <i><b>RMB'000</b></i> <b>(unaudited)</b>	As at 31 December 2020 <i>RMB'000</i> (audited)
<b>Segment assets</b>		
– Tap water supply	4,606,517	4,379,161
– Wastewater treatment	2,983,546	2,894,850
Elimination	–	(50,000)
Consolidated total assets	<u><b>7,590,063</b></u>	<u>7,224,011</u>
<b>Segment liabilities</b>		
– Tap water supply	3,298,356	3,106,153
– Wastewater treatment	1,866,970	1,834,926
Elimination	–	(50,000)
Consolidated total liabilities	<u><b>5,165,326</b></u>	<u>4,891,079</u>

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	
	2021	2020
	<b>RMB'000</b>	<b>RMB'000</b>
	(unaudited)	(unaudited)
Bank interest income	2,963	3,092
Deferred income in respect of government grants recognised	4,603	3,274
Value-added-tax (“VAT”) refunds ( <i>Note (a)</i> )	1,633	3,107
Commission income on garbage fees collected for governmental bureau	2,020	2,204
Late charges on tap water users	2,084	519
Rental income less outgoings ( <i>Note (b)</i> )	252	229
Gains on disposal of property, plant and equipment, net	304	321
Donations	(2)	(134)
Foreign exchange gains, net	99	24
Consultation services income ( <i>Note (c)</i> )	6,604	–
Gain (loss) on sale of equipments and materials	1,586	(204)
Water quality inspection fees	3,095	380
Others	772	(87)
	<b>26,013</b>	<b>12,725</b>

### 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. The amount represents the consulting services provided to two independent third parties for rendering consultancy services of infrastructure.

## 6. FINANCE COSTS

	Six months ended	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest on bank borrowings	48,296	32,596
Interest on other borrowings	11,355	10,000
Unwinding of the discount	8,476	6,826
Interest on lease liabilities	1	1
Interest on bonds payable	20,304	20,285
	<u>88,432</u>	<u>69,708</u>
Less: Amounts capitalised in qualified assets	(20,693)	(16,669)
	<u>67,739</u>	<u>53,039</u>

Borrowing costs capitalised during the six months ended 30 June 2021 arose on the specific and general borrowing pool and the latter is calculated by applying a capitalisation rate of 4.62% (six months ended 30 June 2020: (unaudited) 5.18%) per annum to expenditure on qualifying assets.

## 7. INCOME TAX EXPENSE

	Six months ended	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax	23,121	21,100
Deferred tax – current period	(2,858)	(3,159)
Deferred tax – attributable to change in tax rate ( <i>Note (a)</i> )	–	7,347
	<u>20,263</u>	<u>25,288</u>

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 2021 (six months ended 30 June 2020: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	
	Six months ended 30 June 2021	Six months ended 30 June 2020
The Company ( <i>Note (a)</i> )	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.) ( <i>Note (a)</i> )	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.) ( <i>Note (a)</i> )	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.) ( <i>Note (a)</i> )	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.) ( <i>Note (a)</i> )	15%	15%
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ( <i>Note (a)</i> )	15%	15%
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) (“ <b>Sitong Engineering</b> ”) ( <i>Note (c)</i> )	20%	20%
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) (“ <b>Xinglu Wastewater Treatment</b> ”) ( <i>Notes (a) and (b)</i> )	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.) (“ <b>Sitong Design</b> ”) ( <i>Note (c)</i> )	20%	20%
瀘州市興合水環境治理有限公司 (Luzhou XingheWater Governance Co., Ltd.) ( <i>Note (a)</i> )	15%	15%
興瀘水務(集團)威遠清溪水務有限公司 (XingheWater Weiyuan Qingxi Water Co., Ltd.) ( <i>Note (a)</i> )	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.) ( <i>Note (a)</i> )	15%	15%
瀘州市興瀘水務(集團)興敘水業有限公司 (Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd.) (“ <b>Xingxu Water</b> ”) ( <i>Note (c)</i> )	20%	25%
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.) (“ <b>Leshan Xingjia</b> ”) ( <i>Note (c)</i> )	20%	20%
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“ <b>Fanxing Environmental</b> ”) ( <i>Note (b)</i> )	0% or 12.5%	0%
敘永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd.) (“ <b>Yongxing Water</b> ”) ( <i>Note (c)</i> )	20%	20%
德昌縣興瀘水務有限公司 (Dechang Xinglu Water Co., Ltd.) (“ <b>Dechang Water</b> ”) ( <i>Note (c)</i> )	20%	20%
雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd.) (“ <b>Leibo Water</b> ”) ( <i>Note (c)</i> )	20%	20%
瀘州市興瀘智慧水務科技有限責任公司 (Zhihui Water Science and Technology Co., Ltd.) (“ <b>Zhihui Water</b> ”) ( <i>Note (c)</i> )	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.

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. 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 60% of their total revenue for the year ending 31 December 2021. Therefore, these entities enjoy the preferential EIT rate of 15% for the period.

- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant (“**Chengdong**”) and Chengnan Wastewater Treatment Plant (“**Chengnan**”), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rate of Chengdong and Chengnan is 7.5% for the six months ended 30 June 2020 and 2021.

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. The Luzhou Rural area and Gulin County Rural area of Fanxing Environmental commenced production and operation in 2018 and 2019 respectively. So the EIT rate is nil for the six months ended 30 June 2020. For the six months ended 30 June 2021, the EIT rate of Luzhou Rural area is 12.5% and the EIT rate of Gulin County Rural area is still nil.

- 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, Xingxu Water, Leshan Xingjia, Yongxing Water, Dechang Water, Leibo Water and Zhihui Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.

## 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 2020 (six months ended 30 June 2020: (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 2021 (six months ended 30 June 2020: (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:

	<b>Six months ended</b>	
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit for the period attributable to owners of the Company ( <i>RMB'000</i> )	<b>117,952</b>	96,875
Weighted average number of ordinary shares issued ( <i>'000</i> )	<b>859,710</b>	859,710

No diluted earnings per share is presented for the six months ended 30 June 2021 and 2020 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

## 10. TRADE RECEIVABLES

	<b>As at</b>	<b>As at</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Trade receivables	<b>470,578</b>	357,922
Less: Allowance for credit losses	<b>(11,350)</b>	(4,255)
	<b>459,228</b>	353,667

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:

	As at <b>30 June</b> <b>2021</b> <b><i>RMB'000</i></b> <b>(unaudited)</b>	As at 31 December 2020 <b><i>RMB'000</i></b> <b>(audited)</b>
Within 3 months	<b>156,780</b>	203,759
Between 3 months and 6 months	<b>33,146</b>	62,271
Between 6 months and 12 months	<b>188,996</b>	49,692
Over 1 year	<b>80,306</b>	37,945
	<b>459,228</b>	<b>353,667</b>

## 11. TRADE PAYABLES

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

	As at <b>30 June</b> <b>2021</b> <b><i>RMB'000</i></b> <b>(unaudited)</b>	As at 31 December 2020 <b><i>RMB'000</i></b> <b>(audited)</b>
Within 6 months	<b>49,980</b>	44,378
Between 6 months and 12 months	<b>15,927</b>	3,823
Over 1 year	<b>13,238</b>	10,787
	<b>79,145</b>	<b>58,988</b>

The credit period on purchases are generally within 6 months.



## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (I) INDUSTRY OVERVIEW

On 25 April 2021, the General Office of the State Council issued the Implementation Opinions on Strengthening Urban Waterlogging Control (《關於加強城市內澇治理的實施意見》), which proposed for the exploration of a full chain management mechanism for water affairs such as water supply, drainage and water treatment and a new development model for coordinated flood control and drainage and urban construction with the participation by social capital and provided a strong policy guide for the water supply and drainage industry to extend the upstream and downstream industrial chain.

On 11 June 2021, the National Development and Reform Commission, the Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment jointly prepared the “14th Five-Year Plan for Urban Wastewater Treatment and Resources Utilization Development” (《“十四五”城鎮污水處理及資源化利用發展規劃》) (the “**Plan**”). The Plan specifies the goals that by 2025, the blank areas for direct discharge outlet and collection and treatment facilities for domestic sewage in urban built-up areas shall be basically eliminated and the centralized collection rate of urban domestic sewage in the PRC shall reach more than 70%; the wastewater treatment capacity in cities and counties shall basically meet the needs of economic and social development, and the wastewater treatment rate in counties shall reach over 95%; the harmless disposal rate of municipal sludge shall reach over 90%; the wastewater collection and treatment capacity and the level of harmless sludge disposal of designated towns in the Yangtze River Economic Belt, the Yellow River Basin and the Beijing-Tianjin-Hebei Region shall be significantly improved; by 2035, the urban domestic sewage collection pipeline network shall have nearly full coverage, and all cities and towns shall have wastewater treatment capacity to fully realize harmless disposal of sludge. The level of utilization of sewage and sludge resources shall be significantly improved, and urban wastewater shall be treated in a safe and efficient manner, so that everyone can share a green, ecological and safe urban water ecological environment. The Plan will help alleviate the issues of unbalanced and inadequate development of urban wastewater collection and treatment facilities in the PRC and serve as a useful policy guide for the wastewater treatment industry in terms of standard improvement and environmental treatment.

### (II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2021, the Company will, in adherence to the philosophy of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, closely follow the guidance of industrial policy and seize opportunities to strengthen its presence in the water supply and drainage business, smart water and related upstream and downstream industry chains. It will make full use of the Group’s own strengths to make appropriate and flexible adjustments and expand high-quality and efficient projects with a sound investment and financing strategy, stimulate internal driving force to train and develop high-quality talents in the areas of technical innovation and efficient management with people-oriented in mind, and promote high-quality and fast development in all aspects.

### **(III) BUSINESS REVIEW**

The Group is an integrated municipal water service provider in Sichuan Province, the PRC, principally engaged in tap water supply and wastewater treatment. We adopt project models of build-own-operate (“**BOO**”), transfer-own-operate (“**TOO**”) and build-operate-transfer (“**BOT**”) in the course of business, where we enter into concession agreements with local governments for periods up to 30 years. The Company mainly carries on business in Luzhou City, Weiyuan area in Neijiang City, Leshan City, parts of Liangshan Prefecture and Qingbaijiang area in Chengdu in China, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 city wastewater treatment plants, with a total treatment capacity of approximately 1.09 million tons per day. We also operated several wastewater treatment facilities in townships and rural areas.

#### **Tap Water Projects**

As at the end of the Reporting Period, the Group owned 12 tap water supply plants with a daily supply capacity of approximately 699,000 tons in total with the addition of one water plant (Hejiang Huangxi Water Plant) and the original Hejiang Water Plant was converted into a pump station, so that daily water supply capacity increased by 60,000 tons as compared with that as at 31 December 2020. The average utilisation rate of tap water plants stood at 70.8%.

During the Reporting Period, our total water sales volume amounted to approximately 73.7 million tons, representing an increase of 11.8% as compared with approximately 65.9 million tons for the six months ended 30 June 2020. The increase was mainly due to the extended water supply areas in cities.

#### **Wastewater Treatment Projects**

As at the end of the Reporting Period, the Group owned 9 operating city wastewater treatment plants, with a daily treatment capacity of approximately 391,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 84.4%.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 65.8 million tons, representing an increase of 16.0% as compared with approximately 56.7 million tons for the six months ended 30 June 2020. Our total volume of wastewater treatment with charges amounted to approximately 67.4 million tons (including entrusted operation and emergency projects), relatively unchanged as compared with approximately 67.4 million tons for the six months ended 30 June 2020.

As at the end of the Reporting Period, we had a total of 188 wastewater treatment facilities in townships and rural areas of three districts and two counties, namely Jiangyang district, Longma district, Naxi district, Xuyong county and Gulin county, with a daily treatment capacity of approximately 46,000 tons and the average load ratio of our wastewater treatment facilities was 52.3%.

## **(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 decreased by 20.9% from approximately RMB1,170.6 million for the six months ended 30 June 2020 to approximately RMB925.6 million for the Reporting Period. The decrease was mainly due to a decrease of RMB337.1 million in the revenue from infrastructure construction and upgrade services during the Reporting Period.

##### ***1.1.1 Tap water supply***

###### ***1.1.1.1 Sales of tap water***

Revenue of the Group from sales of tap water increased by 12.8% from approximately RMB147.1 million for the six months ended 30 June 2020 to approximately RMB166.0 million for the Reporting Period. The increase was mainly attributable to the increase in tap water sales volume during the Reporting Period. Revenue from sales of tap water accounted for 12.6% and 17.9% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

###### ***1.1.1.2 Installation services***

Revenue of the Group from installation services increased by 33.1% from approximately RMB170.4 million for the six months ended 30 June 2020 to approximately RMB226.8 million for the Reporting Period. The increase mainly due to the increase in installation of water meters from new users. Revenue from installation services accounted for 14.6% and 24.5% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

###### ***1.1.1.3 Construction and upgrade on tap water supply infrastructure***

Revenue of the Group from construction and upgrade on tap water supply infrastructure services decreased by 47.8% from approximately RMB352.3 million for the six months ended 30 June 2020 to approximately RMB184.0 million for the Reporting Period. The decrease was mainly due to the fact that Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction during the six months ended 30 June 2020, while these projects were completed during the Reporting Period.

## *1.1.2 Wastewater treatment*

### *1.1.2.1 Operating services*

Revenue of the Group from operating services of wastewater treatment decreased by 0.5% from approximately RMB144.6 million for the six months ended 30 June 2020 to approximately RMB143.9 million for the Reporting Period. The volume of wastewater treatment with charges was 67.4 million tons for each of the six months ended 30 June 2020 and 2021. Revenue from wastewater treatment operation accounted for 12.4% and 15.5% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

### *1.1.2.2 Interest income*

The Group's interest income from wastewater treatment increased by 46.6% from approximately RMB38.0 million for the six months ended 30 June 2020 to approximately RMB55.7 million for the Reporting Period. The increase was mainly due to the increased interest income on receivables as a result of the commencement of operation of Erdaoxi Project Phase III and Xuyong Project Phase II.

### *1.1.2.3 Construction and upgrade on wastewater treatment infrastructure*

Revenue of the Group from construction and upgrade on wastewater treatment infrastructure decreased by 53.1% from approximately RMB318.1 million for the six months ended 30 June 2020 to approximately RMB149.3 million for the Reporting Period. The decrease was mainly attributable to the fact that during the six months ended 30 June 2020, projects such as Erdaoxi Project Phase III and Xuyong Project Phase II were still under construction, and these projects were completed during the Reporting Period.

## ***1.2 Cost of Sales and Services***

The Group's cost of sales and services decreased by 29.4% from approximately RMB959.5 million for the six months ended 30 June 2020 to approximately RMB677.1 million for the Reporting Period. The decrease was primarily due to the decrease in the cost of infrastructure construction and upgrade services during the Reporting Period.

### ***1.2.1 Tap water supply***

#### **1.2.1.1 Sales of tap water**

The Group's cost of sales and services associated with sales of tap water increased by 20.1% from approximately RMB123.4 million for the six months ended 30 June 2020 to approximately RMB148.2 million for the Reporting Period. The increase was primarily due to the increase in tap water sales volume and the increase in unit cost as a result of the commencement of operation of water supply pipeline network and other infrastructures.

#### **1.2.1.2 Installation services**

The Group's cost of sales and services associated with installation services increased by 52.3% from approximately RMB68.8 million for the six months ended 30 June 2020 to approximately RMB104.8 million for the Reporting Period. The increase was mainly attributable to the increase in the installation works projects leading to increase in the costs of installation services.

#### **1.2.1.3 Construction and upgrade on tap water supply infrastructure**

The Group's cost of sales and services associated with construction and upgrade on tap water supply infrastructure services decreased by 49.1% from approximately RMB344.2 million for the six months ended 30 June 2020 to approximately RMB175.2 million for the Reporting Period. The decrease was mainly due to the fact that the construction and upgrade on tap water supply infrastructure business decreased during the Reporting Period as compared with the six months ended 30 June 2020. Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction during the six months ended 30 June 2020, while these projects were completed 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 decreased by 5.0% from approximately RMB105.1 million for the six months ended 30 June 2020 to approximately RMB99.8 million for the Reporting Period. The cost of sales and services associated with wastewater treatment operating services accounted for 11.0% and 14.7% of our total cost of sales and services for the six months ended 30 June 2020 and 2021, respectively.

### *1.2.2.2 Construction and upgrade on wastewater treatment infrastructure*

The cost of sales and services associated with construction and upgrade on wastewater treatment infrastructure decreased by 53.1% from approximately RMB317.9 million for the six months ended 30 June 2020 to approximately RMB149.1 million for the Reporting Period. The decrease was mainly due to the fact that the construction and upgrade on wastewater treatment infrastructure projects decreased during the Reporting Period as compared with the six months ended 30 June 2020. During the six months ended 30 June 2020, projects such as Erdaoxi Project Phase III and Xuyong Project Phase II were still under construction, and these projects were completed during the Reporting Period.

## ***1.3 Gross Profit and Gross Profit Margin***

As a result of above, our gross profit increased by 17.7% from approximately RMB211.1 million for the six months ended 30 June 2020 to approximately RMB248.5 million for the Reporting Period. The increase was mainly due to the increase in the gross profit of the installation services, wastewater operating services and construction and upgrade services of infrastructure businesses during the Reporting Period. The gross profit margin increased from 18.0% for the six months ended 30 June 2020 to 26.8% for the Reporting Period. The increase was mainly due to the increase in gross margin generated from the wastewater operating services and construction and upgrade services of infrastructure businesses during the Reporting Period.

### *1.3.1 Tap water supply*

#### *1.3.1.1 Sales of tap water*

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 25.0% from approximately RMB23.7 million for the six months ended 30 June 2020 to approximately RMB17.8 million for the Reporting Period. The decrease was due to higher amortization as a result

of commencement of operation of water supply pipe networks and other infrastructure during the Reporting Period. The corresponding gross profit margin decreased from 16.1% for the six months ended 30 June 2020 to 10.7% for the Reporting Period. The decrease was mainly due to the higher increase in amortization as a result of commencement of operation of water supply pipelines networks and other infrastructure during the Reporting Period.

#### 1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 20.1% from approximately RMB101.6 million for the six months ended 30 June 2020 to approximately RMB122.0 million for the Reporting Period. The increase was due to a significant increase in installation service income during the Reporting Period. The corresponding gross profit margin decreased from approximately 59.6% for the six months ended 30 June 2020 to 53.8% for the Reporting Period. The decrease was mainly due to less installation projects with higher gross profit margin during the Reporting Period.

#### 1.3.1.3 Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure increased by 8.6% from approximately RMB8.1 million for the six months ended 30 June 2020 to approximately RMB8.8 million for the Reporting Period. The increase was mainly due to higher gross profit from self-constructed projects. The corresponding gross profit margins were 2.3% and 4.8% for the six months ended 30 June 2020 and 2021, respectively.

### 1.3.2 Wastewater treatment

#### 1.3.2.1 Operating services

The gross profit of the Group for wastewater treatment operating services increased by 11.6% from approximately RMB39.5 million for the six months ended 30 June 2020 to approximately RMB44.1 million for the Reporting Period. The corresponding gross profit margin increased from 27.3% for the six months ended 30 June 2020 to 30.6% for the Reporting Period. The increase was mainly due to the new emergency projects during the Period which had a relatively high unit price of service fee, and that the Group effectively controlled costs.

#### 1.3.2.2 Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure increased by 21.6% from approximately RMB162,000.0



for the six months ended 30 June 2020 to approximately RMB197,000.0 for the Reporting Period. The increase was mainly due to a small increase in the gross profit margin of the Group's wastewater treatment infrastructure construction and upgrading services in the industry during the Reporting Period as compared with the six months ended 30 June 2020.

#### ***1.4 Other Income, Expenses, Gains and Losses, Net***

The Group's other income, expenses, gains and losses, net increased by 104.7% from approximately RMB12.7 million for the six months ended 30 June 2020 to approximately RMB26.0 million for the Reporting Period. The increase was mainly due to the addition of technical consultation services of engineering projects provided by the Group for independent third parties during the Reporting Period, and the water quality inspection service fee, deferred revenue from recognized government grants, etc. increased as compared with those for the six months ended 30 June 2020.

#### ***1.5 Distribution and Selling Expenses***

The Group's selling and distribution expenses increased by 87.3% from approximately RMB5.5 million for the six months ended 30 June 2020 to approximately RMB10.3 million for the Reporting Period. The increase was primarily due to the policy of the State Council of the PRC on basic pension insurance, unemployment insurance and work-related injury insurance (the **"Three Insurances"**), resulting in the exemption of fees of the Three Insurances and 50% exemption of medical insurance fees by Luzhou Social Security Bureau for the six months ended 30 June 2020, while such policy was no longer effective during the Reporting Period.

#### ***1.6 Administrative Expenses***

The Group's administrative expenses increased by 23.9% from approximately RMB32.2 million for the six months ended 30 June 2020 to approximately RMB39.9 million for the Reporting Period. The increase was primarily due to the policy of the State Council of the PRC on Three Insurances, resulting in the exemption of fees of the three insurances and 50% exemption of medical insurance fees by Luzhou Social Security Bureau during the six months ended 30 June 2020, while such policy was no longer effective during the Reporting Period.

#### ***1.7 Finance Costs***

The Group's finance costs increased by 27.7% from approximately RMB53.0 million for the six months ended 30 June 2020 to approximately RMB67.7 million for the Reporting Period. The increase was attributable to, on the one hand, the Group's new borrowings at the end of the Reporting Period and, on the other hand, with the commissioning of the new tap water supply projects (Nanjiao Second Water Plant Project (Phase II) Project and Naxi Water Plant Project (Phase I) Project) and the new



sewage projects (Erdaoxi Phase III and Xuyong Phase II), the interest on the relevant borrowings was no longer be capitalised and being expensed during the Reporting Period, resulting in an increase in finance costs.

### ***1.8 Income Tax Expense***

Although the profit before tax increased, the income tax expense decreased by 19.8% from approximately RMB25.3 million for the six months ended 30 June 2020 to approximately RMB20.3 million for the Reporting Period. For the six months ended 30 June 2020 and 2021, the effective tax rate of the Group were 19.6% and 13.7%, respectively. The decrease in income tax expense from the six months ended 30 June 2020 was mainly due to the declined deferred tax charge. This is attributed to the reason that during the Reporting Period, several large water plants of the Group were recognised from construction work in progress to property, plant and equipment and the tax rate on the reversal of temporary differences arising from the depreciable life of assets generally changed from 15% to 25%, resulting in the decrease of corresponding deferred tax charge.

### ***1.9 Profit after Tax and Profit Margin after Tax***

As a result of the above, profit after tax increased by 23.2% from approximately RMB103.9 million for the six months ended 30 June 2020 to approximately RMB128.0 million for the Reporting Period. Profit margin after tax increased from approximately 8.9% for the six months ended 30 June 2020 to 13.8% 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 RMB80.8 million and approximately RMB58.0 million as at 31 December 2020 and the end of the Reporting Period, respectively. The decrease was mainly due to the obtaining of the operating concession for water supply in Leibo County by Leibo Water and the accounting of the relevant infrastructure as intangible assets during the Reporting Period.

### ***2.2 Intangible Assets***

The Group's intangible assets were approximately RMB3,511.3 million and approximately RMB3,720.5 million as at 31 December 2020 and the end of the Reporting Period, respectively. The increase was mainly due to the obtaining of the operating concession for water supply in Leibo County by Leibo Water and the accounting of the relevant infrastructure as intangible assets during the Reporting Period, and 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 RMB1,659.3 million and approximately RMB1,673.9 million as at 31 December 2020 and the end of the Reporting Period, respectively. The increase was mainly due to the commencement of operation of part of Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period, leading to the increase in receivables under the service concession arrangements.

### **2.4 Inventories**

The Group's inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to approximately RMB33.8 million and approximately RMB33.5 million as at 31 December 2020 and the end of the Reporting Period, respectively. The decrease was mainly because 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:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
Average inventory turnover days <sup>(1)</sup>	<b><u>9</u></b>	<b><u>8</u></b>

- (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 increased from 8 days for the six months ended 30 June 2020 to 9 days for the Reporting Period, representing a slight change and maintained at low levels, which was mainly due to enhanced inventory management and maintenance of inventory flow.

## 2.5 Trade Receivables

Trade receivables of the Group were RMB353.7 million and RMB459.2 million as at 31 December 2020 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	
	2021	2020
Average trade receivables turnover days <sup>(1)</sup>	<u>79</u>	<u>50</u>

- (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 infrastructure construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 50 days for the six months ended 30 June 2020 to 79 days for the Reporting Period. Such increase was primarily because of the extension of government financial payments, which resulted in the delayed payment of wastewater treatment fees, while we practically strengthened our management policy on collection of trade receivables.

## 2.6 Trade Payables

Our trade payables were RMB59.0 million and RMB79.1 million as at 31 December 2020 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	
	2021	2020
Average trade payables turnover days <sup>(1)</sup>	<u>18</u>	<u>12</u>

- (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 construction and upgrade services from the cost of sales because our trade payable include cost of sales and services incurred from our sales of tap water, 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 construction and upgrade services from the cost of sales is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days increased from 12 days for the six months ended 30 June 2020 to 18 days for the Reporting Period. The increase was mainly due to the addition of more installation services during the Reporting Period, resulting in increased payment for equipment purchase, with the corresponding higher outstanding balance than that as at the end of last 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:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
Average trade payables and construction payables turnover days <sup>(1)</sup>	<b><u>254</u></b>	<b><u>135</u></b>

- (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 135 days for the six months ended 30 June 2020 to 254 days for the Reporting Period. Such increase was mainly due to the increase in construction payables of various tap water supply projects and wastewater treatment projects.

### 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 (“**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 RMB1,035.3 million (31 December 2020: RMB1,036.2 million).

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB4,224.8 million (31 December 2020: RMB4,144.3 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,254.1 million (31 December 2020: RMB2,041.6 million), including bank and other borrowings. Approximately 56.1% of the bank borrowings and other borrowings bear 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 equity attributable to parent company) was 85.5% (31 December 2020: 78.2%).

As at the end of the Reporting Period, the asset-to-debt ratio of the Group (calculated by net debts divided by total assets) increased from approximately 23.6% as at 31 December 2020 to approximately 25.3% 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 1,162 employees (31 December 2020: 1,142 employees). For the Reporting Period, employee salaries and benefits expenses amounted to RMB71.4 million (six months ended 30 June 2020: RMB68.4 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\$399.11 million of the proceeds had been used by the Group in the manner as disclosed in the prospectus and approximately HK\$1.69 million of the proceeds had not yet been used. It is expected to be fully utilized on or before 30 June 2022.

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	38.39	1.69
Total	<u>400.80</u>	<u>399.11</u>	<u>1.69</u>

## (VII) MAJOR ACQUISITIONS AND INVESTMENTS

During the Reporting Period, the Company has no other arrangements for major investment or acquisition of capital assets.

## (VIII) PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, the Group had secured bank borrowings secured by the operating concessions for all water supply projects of the Company in Jiangyang District and the equity interests in Fanxing Environmental held by the Company, the land use right and charging right for wastewater treatment fees owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for wastewater treatment projects of Fanxing Environmental in townships and rural areas in Jiangyang District, Luzhou City, charging right for wastewater treatment fees of Qingbaijiang Water, properties and charging right for tap water of Qingxi Water, and charging right for wastewater treatment fees of Dechang Water.

Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any 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 RMB99,000 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 instruments held by the Group amounted to approximately RMB55.09 million (31 December 2020: RMB56.46 million), which represent the Group's equity investments of 12.7% (31 December 2020: 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公司) and other unlisted companies in the PRC.

## **(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.

## **(XIII) OTHERS**

In response to the COVID-19 pandemic, the Chinese government took mandatory quarantine measures, and the region where the Company is located was identified as a low-risk region. The Company fully implemented the government's various decisions and arrangements to ensure the safe water supply and wastewater discharge meeting the standards. The Board believes that the COVID-19 pandemic has had basically no impact on the unaudited condensed consolidated financial statements of the Group as at 30 June 2021.



### III. OTHER INFORMATION

#### (I) INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 (the “**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.

#### (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 of the Company by the Directors, the Supervisors and employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities. 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. In addition, during the Reporting Period, the Company was not aware of any non-compliance of the Model Code by the relevant employees of the Group.

## **(VI) PUBLIC FLOAT**

Based on the public information of the Company and to the knowledge of the Board, during the Reporting Period and up to the date of this announcement, at least 25% of the total issued share capital of the Company are held in public hands.

## **(VII) 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.

## **(VIII) AUDIT COMMITTEE**

The audit committee of the Company (the “**Audit Committee**”) consists of two independent non-executive Directors, namely Mr. Cheng Hok Kai, Frederick and Mr. Gu Ming’an and a non-executive Director Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick serving as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters. The terms of reference of the Audit Committee are available for inspection on the Company’s website and the website of the Stock Exchange.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the Reporting Period and has discussed with the senior management on the accounting policies and practices adopted by the Company as well as matters relating to internal control.

#### IV. REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021 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 2021 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](http://www.hkexnews.hk) and on the Company's website at [www.lzss.com](http://www.lzss.com). The interim report of the Group for the six months ended 30 June 2021 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, Sichuan Province, the PRC  
27 August 2021

*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*