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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 2022**

**FINANCIAL HIGHLIGHTS**

For the six months ended 30 June 2022:

- Revenue amounted to approximately RMB698.1 million, representing an increase of approximately 4.1% from the same period of last year.
- Net profit amounted to approximately RMB133.1 million, representing an increase of approximately 6.7% from the same period of last year.
- Net profit attributable to the owners of the parent company amounted to approximately RMB121.9 million, representing an increase of approximately 3.7% from the same period of last year.
- Basic earnings per share amounted to approximately RMB0.14, which was basically in line with the same period of last year.
- The Board did not recommend the distribution of any interim dividend for the six months ended 30 June 2022.

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 2022 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2021 as follows:

# I. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION OF THE GROUP

## 1. CONSOLIDATED INCOME STATEMENT

Items	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
<b>Total operating revenue</b>	<b>698,079</b>	670,477
Of which: Operating revenue	<b>698,079</b>	670,477
<b>Total operating cost</b>	<b>579,749</b>	510,547
Of which: Operating cost	<b>439,900</b>	382,646
Taxes and surcharges	<b>14,621</b>	14,297
Cost of sales	<b>12,459</b>	10,672
Management expenses	<b>45,636</b>	45,620
Finance costs	<b>67,132</b>	57,312
Add: Other revenue	<b>45,825</b>	12,420
Investment income		
(represented by a sign of “-” for loss)	<b>(77)</b>	(35)
Credit impairment loss		
(represented by a sign of “-” for loss)	<b>(9,201)</b>	(15,531)
Asset impairment loss		
(represented by a sign of “-” for loss)	<b>0</b>	(12,215)
Income from disposal of assets		
(represented by a sign of “-” for loss)	<b>0</b>	0
<b>Operating profit (represented by a sign of “-” for loss)</b>	<b>154,878</b>	144,569
Add: Non-operating revenue	<b>2,218</b>	3,579
Less: Non-operating expense	<b>1,183</b>	190
<b>Total profit (represented by a sign of “-” for total loss)</b>	<b>155,912</b>	147,959
Less: Income tax expense	<b>22,842</b>	23,193
<b>Net profit (represented by a sign of “-” for net loss)</b>	<b>133,071</b>	124,765
(1) Classified by continuing operation	<b>133,071</b>	124,765
1. Net profit for continuing operation (represented by a sign of “-” for net loss)	<b>133,071</b>	124,765
(2) Classified by attribution of ownership	<b>133,071</b>	124,765
1. Net profit attributable to owners of the parent company (represented by a sign of “-” for net loss)	<b>121,918</b>	117,548
2. Minority interests (represented by a sign of “-” for net loss)	<b>11,152</b>	7,217

<b>Items</b>	<b>Six months ended 30 June</b>	
	<b>2022</b> <b>RMB'000</b> <b>(unaudited)</b>	<b>2021</b> <b>RMB'000</b> <b>(unaudited)</b>
<b>Other comprehensive income, net after tax</b>	<b>0</b>	<b>0</b>
Other comprehensive income attributable to the owners of the parent company, net after tax	<b>0</b>	<b>0</b>
(1) Other comprehensive income that cannot be reclassified into profit or loss	<b>0</b>	<b>0</b>
1. Changes in fair value of investments in other equity instruments	<b>0</b>	<b>0</b>
<b>Total comprehensive income</b>	<b>133,071</b>	<b>124,765</b>
Total comprehensive income attributable to the shareholders of the parent company	<b>121,918</b>	<b>117,548</b>
Total comprehensive income attributable to minority shareholders	<b>11,152</b>	<b>7,217</b>
<b>Earnings per share:</b>		
(1) Basic earnings per share (RMB/share)	<b>0.14</b>	<b>0.14</b>
(2) Diluted earnings per share (RMB/share)	<b>0.14</b>	<b>0.14</b>

## 2. CONSOLIDATED BALANCE SHEET

<b>Items</b>	<b>As at 30 June 2022 RMB'000 (unaudited)</b>	<b>As at 31 December 2021 RMB'000 (audited)</b>
<b>Current assets</b>		
Monetary funds	890,915	871,745
Bills receivable	1,750	2,699
Accounts receivable	545,757	486,059
Prepayments	36,280	19,787
Other receivables	149,963	148,145
Inventories	110,920	53,726
Contract assets	0	0
Other current assets	62,420	74,422
<b>Total current assets</b>	<b>1,798,005</b>	<b>1,656,582</b>
<b>Non-current assets</b>		
Long-term receivables	5,754	5,594
Long-term debt investment	55,199	55,276
Investments in other equity instruments	21	21
Properties held for investment	3,064	3,143
Fixed assets	3,251,250	3,324,840
Construction in progress	421,190	318,004
Right-of-use assets	279	1,721
Intangible assets	1,406,536	1,387,876
Goodwill	28,139	28,139
Long-term deferred expenses	225,535	238,123
Deferred income tax assets	7,815	6,814
Other non-current assets	47,041	47,184
<b>Total non-current assets</b>	<b>5,451,823</b>	<b>5,416,735</b>
<b>Total assets</b>	<b>7,249,829</b>	<b>7,073,316</b>

<b>Items</b>	<b>As at 30 June 2022 RMB'000 (unaudited)</b>	<b>As at 31 December 2021 RMB'000 (audited)</b>
<b>Current liabilities</b>		
Short-term borrowings	180,112	239,283
Accounts payable	368,521	539,837
Contract liabilities	248,461	194,029
Staff wages payable	39,424	47,331
Tax payable	18,925	26,855
Other payables	271,818	179,435
Of which: Interests payable	0	0
Dividends payable	42,986	0
Non-current liabilities due within one year	422,758	927,385
Other current liabilities	2,682	1,968
<b>Total current liabilities</b>	<b>1,552,702</b>	<b>2,156,124</b>
<b>Non-current liabilities</b>		
Long-term borrowings	1,826,653	1,390,656
Debenture payables	103,535	0
Lease liabilities	46	1,298
Long-term payables	748,475	585,292
Long-term staff wages payable	0	0
Estimated liabilities	4,671	4,452
Deferred income	256,883	268,555
Deferred Income tax liabilities	5,751	5,918
<b>Total non-current liabilities</b>	<b>2,946,014</b>	<b>2,256,171</b>
<b>Total liabilities</b>	<b>4,498,716</b>	<b>4,412,295</b>
<b>Shareholders' equity</b>		
Share capital	859,710	859,710
Capital reserve	420,447	420,447
Other comprehensive income	(67)	(67)
Special reserve	16,992	17,011
Surplus reserve	63,430	63,430
Undistributed profits	1,194,531	1,115,598
<b>Total shareholders' equity attributable to the parent company</b>	<b>2,555,043</b>	<b>2,476,129</b>
Minority shareholders' equity	196,070	184,892
<b>Total shareholders' equity</b>	<b>2,751,113</b>	<b>2,661,021</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,249,829</b>	<b>7,073,316</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the “China Accounting Standards for Business Enterprises” (the “ASBE”) promulgated by the Ministry of Finance of the People’s Republic of China (“Ministry of Finance” or “MOF”) 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”).

### 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 2022 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2021.

## 2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	Six months ended 30 June	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(unaudited)
<b>Type of services</b>		
– Water supply business	181,991	174,380
– Wastewater treatment business	263,903	214,241
– Engineering business	232,319	250,194
– Others	19,866	31,662
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Revenue	<b>698,079</b>	670,477
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The above revenue of the Group are all derived from the People’s Republic of China (the “PRC”). °

### 3. SEGMENT INFORMATION

Information reported to chairman of the Board of the Company, being the chief operating decision maker (“**CODM**”), during the Reporting 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 the ASBE No. 35 Segment Reporting are as follows:

- Tap water supply – provision of water supply, installation services and others
- Wastewater treatment – provision of wastewater treatment services

The tap water supply segment includes the Company and its certain subsidiaries mainly providing tap water supply, engineering services and other 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 services and other 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 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 in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

## Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Six months ended 30 June	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
<b>Segment revenue*</b>		
Tap water supply		
– From external customers	434,176	456,236
– Water supply business	181,991	174,380
– Engineering business	232,319	250,194
– Others	19,866	31,662
Total	<u>434,176</u>	<u>456,236</u>
<b>Wastewater treatment</b>		
– From external customers	263,903	214,241
– Operating services	263,903	214,241
Total	<u>263,903</u>	<u>214,241</u>
<b>Revenue</b>	<u>698,079</u>	<u>670,477</u>
<b>Segment profits</b>		
– Tap water supply	29,867	88,996
– Wastewater treatment	101,187	34,684
– Others	2,017	1,085
<b>Net profit</b>	<u>133,071</u>	<u>124,765</u>

\* Inter-segment sales for the six months ended 30 June 2021 and 2022 were conducted at terms mutually agreed among the companies comprising the Group.

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>2022</b> <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
<b>Segment assets</b>		
– Tap water supply	5,235,606	5,399,032
– Wastewater treatment	2,646,078	2,378,686
– Others	25,171	19,347
Elimination	<u>(657,026)</u>	<u>(653,700)</u>
Consolidated total assets	<u><b>7,249,829</b></u>	<u><b>7,143,365</b></u>
<b>Segment liabilities</b>		
– Tap water supply	3,106,407	3,322,991
– Wastewater treatment	1,383,254	1,285,338
– Others	10,607	7,203
Elimination	<u>(1,552)</u>	<u>(1,061)</u>
Consolidated total liabilities	<u><b>4,498,716</b></u>	<u><b>4,614,471</b></u>

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

## 4. FINANCE EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses	71,246	60,832
Less: Interest incomes	4,700	4,641
Add: Exchange loss	(53)	13
Add: Income expenses of lease liabilities	37	62
Add: Other expenses	<u>602</u>	<u>1,046</u>
	<u><b>67,132</b></u>	<u><b>57,312</b></u>

## 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Current income tax expense	24,010	25,154
Deferred income tax expense	(1,169)	(1,961)
Total	<u>22,841</u>	<u>23,193</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and its implementation regulations, the tax rate of the subsidiaries is 25% for the six months ended 30 June 2022 (six months ended 30 June 2021: (unaudited) 25%), except for the following group entities:

### Applicable EIT rate

Name of taxpayer	Six months ended 30 June	
	2022	2021
Luzhou Xinglu Water (Group) Co., Ltd.(the “Company”) <sup>Note a</sup> and Luzhou Xinglu Water (Group) Co., Ltd. Water Supply and Drainage Quality Monitoring Station (“Water Monitoring Station”)	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“Lu County Branch”) <sup>Note a</sup>	15%	15%
Luzhou Xinglu Water (Group) Naxi Water Co., Ltd. (“Naxi Water”) <sup>Note a</sup>	Not applicable	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“Hejiang Water”) <sup>Note a</sup>	15%	15%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (“Crystal Trading”) <sup>Note c</sup>	2.5%	2.5%
Luzhou Xinglu Water Group Jiangnan Water Co., Ltd. (“Jiangnan Water”) <sup>Note a</sup>	Not applicable	15%
Luzhou Nanjiao Water Co., Ltd. (“Nanjiao Water”) <sup>Note a</sup>	15%	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“Beijiao Water”) <sup>Note a</sup>	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“Sitong Engineering”) <sup>Note a</sup>	15%	15%
Zhihui Water Science and Technology Co., Ltd. (“Zhihui Technology”) <sup>Note c</sup>	2.5%	2.5%
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“Sitong Design”) <sup>Note c</sup>	2.5% or 5%	20%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater”) <sup>Note b</sup>	15%	7.5% or 15%
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“Xingxu Water”) <sup>Note c</sup>	2.5%	2.5%
Luzhou Xinghe Water Governance Co., Ltd. (“Xinghe Water Governance”) <sup>Note a</sup>	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“Weiyuan Water”) <sup>Note a</sup>	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“Weiyuan Installation”) <sup>Note a</sup>	2.5%	2.5%
Luzhou Fanxing Environmental Development Co., Ltd. (“Fanxing Environmental”) <sup>Note b</sup>	12.5%	0% or 12.5%
Xuyong Yongxing Water Governance Co., Ltd. (“Yongxing Water Governance”) <sup>Note c</sup>	2.5%	2.5%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“Xingjia Environmental”)	2.5%	2.5%
Leibo Xinglu Water Co., Ltd. (“Leibo Water”)	15%	2.5%
Dechang Xinglu Water Co., Ltd. (“Dechang Water”) <sup>Note a</sup>	2.5%	2.5%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“Qingbaijiang Water”) <sup>Note a</sup>	15%	15%

Notes:

- a. According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23) by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030. Projects including the Company, Lu County Branch, Naxi Water, Jiangnan Water, Hejiang Water, Nanjiao Water, Beijiao Water, Sitong Engineering, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, Weiyuan Installation, Fanxing Environmental, Dechang Water and Qingbaijiang Water meet the requirements of the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, and being in the encouraged industries as set out in the Catalogue of Industries Encouraged to Develop in the Western Region, they are entitled to enjoy the preferential tax policy under the Implementation of Exploration and Development of Western Region.
- b. According to Article 27 of the EIT Law, the income of enterprises engaged in the investment and operation of public infrastructure projects supported by the state and the income derived from environmental protection projects or energy and water saving projects which meet relevant requirements are entitled to the tax preference of exemption and reduction. According to Article 88 of the Regulations for Implementation of Enterprise Income Tax, in respect of environmental protection projects or energy and water saving projects, including public wastewater treatment, public garbage treatment, integrated development and utilization of biogas, energy saving and emission reduction technology transformation and seawater desalination which meet relevant requirements, the income of enterprises engaging in the above environmental protection projects or energy and water saving projects which meet relevant requirements is entitled to be exempted from EIT 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. According to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (MOF Notice 2020 No. 23) by the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission, enterprise income tax will be levied at a reduced rate of 15% on enterprises located in the western region in the encouraged industries from 1 January 2021 to 31 December 2030. If an enterprise meets the conditions for the 15% preferential tax rate under the Implementation of Exploration and Development of Western Region and also meets the tax preference conditions under the EIT Laws and its implementation regulations and the requirements of the State Council, it is entitled to the tax preferences simultaneously. During the 50% reduction period involving tax relief for a fixed period, the tax payable may be reduced by 50% based on the tax rate applicable to the enterprise.

Name of taxpayer	Tax exemption period	50% tax reduction period
Xinglu Wastewater (Chengdong Wastewater Treatment Plant)	2016-2018	2019-2021
Xinglu Wastewater (Chengnan Wastewater Treatment Plant)	2016-2018	2019-2021
Fanxing Environmental (Gulin project)	2019-2021	2022-2024
Fanxing Environmental (Longmatan, Jiangyang and Naxi projects)	2018-2020	2021-2023
Qingbaijiang Water	2020-2022	2023-2025

- c. According to the Notice of Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Cai Shui [2019] No. 13) by the Ministry of Finance and the State Administration of Taxation, Crystall Trading, Zhihui Technology, Sitong Design, Xingxu Water and Yongxing Water Governance etc. are eligible for the Inclusive Tax Relief Policy for Small and Micro Size Enterprises, for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, enterprise income tax shall be accounted for at 5%; for the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, and the enterprise income tax shall be accounted for at 10%.

- d. According to the Notice of Implementing the Preferential Income Tax Policies for Small and Micro Size Enterprises and Individual Industrial and Commercial Households by the Ministry of Finance and the State Administration of Taxation (Ministry of Finance and the State Administration of Taxation Notice 2021 No. 12), for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, on the basis of the preferential policies stipulated in Article 2 of the Notice of Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Cai Shui [2019] No. 13) by the Ministry of Finance and the State Administration of Taxation, the enterprise income tax shall be reduced by half and accounted for at 2.5%.

## 6. DIVIDEND

During the Reporting Period, a final dividend of RMB42,985,500 or RMB0.05 per share (tax inclusive) in respect of the year ended 31 December 2021 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 2022 (six months ended 30 June 2021: (unaudited) Nil).

## 7. EARNINGS PER SHARE

Earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
Net profit attributable to shareholders of the parent ( <i>RMB'000</i> )	<b>121,918</b>	117,548
Weighted average number of ordinary shares issued ( <i>'000</i> )	<b>859,710</b>	859,710
Earnings per share ( <i>RMB</i> )	<b>0.14</b>	0.14

No diluted earnings per share was presented for the six months ended 30 June 2022 and 2021 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

## 8. ACCOUNTS RECEIVABLE

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Accounts receivable	<b>594,105</b>	525,927
Less: Allowance for credit losses	<b>48,348</b>	39,869
Total accounts receivable	<b>545,757</b>	486,059

The following is the aging analysis of accounts receivable, presented based on the respective revenue recognition dates:

	As at <b>30 June</b> 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
Within 1 year (inclusive)	436,699	418,191
1 to 2 years	116,234	85,591
2 to 3 years	25,101	10,532
3 to 4 years	11,751	9,902
4 to 5 years	2,609	680
Over 5 years	1,710	1,031
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Total	<b>594,105</b>	525,927
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## 9. ACCOUNTS PAYABLE

The following is the aging analysis of accounts payable, presented based on the invoice dates:

	As at <b>30 June</b> 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
At the end of the year	57,500	327,982
1 to 2 years	132,510	38,682
2 to 3 years	21,411	127,030
3 to 4 years	115,991	21,754
4 to 5 years	16,911	19,004
Over 5 years	24,198	5,384
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	<b>368,521</b>	539,837
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## 10. SHARE CAPITAL

	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
At the end of the period	<b>859,710</b>	859,710
	<i>'000 shares</i>	<i>'000 shares</i>
Shares of RMB1 each		
– Domestic shares ( <i>Note</i> )	<b>644,770</b>	644,770
– H shares	<b>214,940</b>	214,940
	<b>859,710</b>	859,710

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

## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (I) INDUSTRY OVERVIEW

On 24 January 2022, the Ministry of Housing and Urban-Rural Development issued the “14th Five-Year Plan for Promoting the Development of Urban and Rural Development in the Yangtze River Economic Belt”, proposing to coordinate the relationship between urban floods and waterlogging, improve the balance system of water storage and drainage, enhance the capacity of urban flood control and drainage, build a water-saving city and implement regional reclaimed water recycling projects according to local conditions, which provides a good policy guide for the water supply and drainage industry to achieve large-scale utilization of reclaimed water.

On 9 February 2022, the National Development and Reform Commission, the Ministry of Ecology and Environment, the Ministry of Housing and Urban-Rural Development, and the National Health Commission issued the “Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure” (the “**Opinions**”). The Opinions clearly stated the goal that: by 2025, the supply capacity and level of urban environmental infrastructure will be significantly improved, to accelerate the making up for the shortcomings of key areas and key sectors, and to construct an integrated sewage, garbage, solid waste, hazardous waste, medical waste treatment and disposal facilities and an environmental infrastructure system with monitoring and supervision capabilities. The objectives of sewage treatment and resource utilisation by 2025 are to attain new sewage treatment capacity of 20 million cubic meters per day, 80,000 kilometers of new and renovated sewage collection pipelines, new, renovated and expanded reclaimed water production capacity of not less than 15 million cubic meters per day, and the county sewage treatment rate of more than 95%, a utilization rate of wastewater in water-deficient cities at and above prefecture level of more than 25%, and the harmless disposal rate of urban sludge of 90%. By 2030, a modern environmental infrastructure system with complete systems, which is highly efficient, practical, intelligent, green, safe and reliable will be basically established. The Opinions are conducive to promoting the full coverage of urban sewage pipe networks and the “integration of plants and networks” for domestic sewage collection and treatment facilities, which provides a powerful policy guide for the sewage treatment industry in the fields of upgrading and renovation, environmental governance and other areas.

### (II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2022, the Company will continue to implement the new development concept of “innovation, coordination, greenness, openness and sharing” and seize the opportunity to continue to expand its water supply and drainage business, intelligent water services and related upstream and downstream industrial chains to increase its operating revenue in various aspects, and to effectively reduce production costs through refined management, so as to increase revenue and reduce expenses and ensure sustainable and stable development of the enterprise.

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

The Group is an integrated municipal water service provider in Sichuan Province, the PRC, and principally engages 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, part of Liangshan Prefecture and Qingbaijiang area in Chengdu City, the PRC, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 city wastewater treatment plants, and one industrial park wastewater treatment plant and six entrusted operation wastewater treatment plants, we also operated several wastewater treatment facilities in townships and rural areas. In addition, we operated several wastewater treatment facilities in urban and rural areas, and engaged in entrusted operation and industrial wastewater treatment projects. Our total treatment capacity is approximately 1.277 million tons per day.

#### **Tap Water Projects**

As at the end of the Reporting Period, the Group had 12 tap water plants with a daily water supply capacity of approximately 774,000 tons (excluding emergency back-up water plants), which was essentially the same as compared to 31 December 2021. The average utilization rate of tap water plants is 64.6%.

During the Reporting Period, our total water sales volume were approximately 76.5 million tons, representing an increase of 3.8% from our sales of tap water of approximately 73.7 million tons for the six months ended 30 June 2021. The increase was mainly due to the development of urban construction, the urban water population has increased.

#### **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 397,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 94.8%; one industrial park wastewater treatment plant with a daily treatment capacity of approximately 20,000 tons in aggregate; and six entrusted operation wastewater treatment plants with a daily treatment capacity of approximately 32,000 tons in aggregate; a total of 197 wastewater treatment facilities in the townships and rural areas with a daily treatment capacity of approximately 54,000 tons. The daily wastewater treatment capacity remained the same as compared to 31 December 2021.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 74.0 million tons, representing an increase of 12.5% as compared with approximately 65.8 million tons for the six months ended 30 June 2021. Our total volume of wastewater treatment with charges for the Reporting Period amounted to approximately 79.9 million tons (including entrusted operation and emergency projects), this represents an increase of 18.5% from approximately 67.4 million tons for the six months ended 30 June 2021.



## (IV) FINANCIAL REVIEW

### 1. Analysis of Key Items in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

#### 1.1 Operating Revenue

During the Reporting Period, operating revenue of the Group amounted to RMB698.1 million, representing an increase of 4.1% from RMB670.5 million for the same period of 2021. The increase was mainly due to the increase in sales volume of tap water and wastewater treatment volume.

##### 1.1.1 Tap water supply

###### 1.1.1.1 Sales of tap water

During the Reporting Period, revenue of the Group generated from sales of tap water amounted to RMB182.0 million, representing an increase of 4.4% from RMB174.4 million for the same period of 2021. The increase was mainly due to the increase in sales volume of tap water. Revenue generated from sales of tap water accounted for 26.0% and 26.1% of our total revenue for the six months ended 30 June 2021 and 2022, respectively.

###### 1.1.1.2 Engineering installation

Revenue of the Group generated from installation services amounted to RMB232.3 million, representing a decrease of 7.2% from RMB250.2 million for the same period of 2021. The decrease was mainly due to a decrease in the number of completed projects and meter installations during the Reporting Period as compared to the same period last year. Revenue generated from installation services accounted for 37.3% and 33.3% of our total revenue for the six months ended 30 June 2021 and 2022, respectively.

##### 1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group from operating services of wastewater treatment amounted to RMB263.9 million, representing an increase of 23.2% from RMB214.2 million for the same period of 2021. The increase was mainly due to an increase in the treatment volume of wastewater. Revenue generated from wastewater treatment operation accounted for 32.0% and 37.9% of our total revenue for the six months ended 30 June 2021 and 2022, respectively.

## ***1.2 Operating cost***

During the Reporting Period, the Group's operating cost amounted to RMB439.9 million, increased by 15.0% from RMB382.6 million for the same period of 2021. The increase was mainly due to the increase in sales volume of tap water and wastewater treatment volume and an increase in depreciation expenses for new wastewater treatment plants.

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

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

During the Reporting Period, the Group's operating cost of tap water amounted to RMB181.7 million, representing an increase of 21.6% from RMB149.4 million for the same period of 2021. The increase was mainly due to the increase in tap water sales and an increase in depreciation expenses for new wastewater treatment plants. Operating cost associated with tap water supply operations accounted for 39.0% and 41.3% of our total operating cost for the six months ended 30 June 2021 and 2022, respectively.

#### ***1.2.1.2 Engineering installation***

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB96.3 million, representing an increase of 2.8% from RMB93.7 million for the same period of 2021. The increase was mainly due to the upgrade of the Group's water pipeline materials to higher quality stainless steel pipes in order to enhance the quality of water supply. Operating cost associated with installation services accounted for 24.5% and 21.9% of the total operating cost for the six months ended 30 June 2021 and 2022, respectively.

### ***1.2.2 Wastewater Treatment***

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB146.1 million, representing an increase of 13.2% from RMB129.1 million for the same period of 2021. The increase was mainly due to the increase in wastewater treatment volume. Operating cost from wastewater treatment operating services accounted for 33.7% and 33.2% of the total operating cost for the six months ended 30 June 2021 and 2022, respectively.

### ***1.3 Gross profit and gross profit margin***

As a result of the above, the Group's gross profit amounted to RMB258.2 million during the Reporting Period, representing a decrease of 10.3% from RMB287.8 million for the same period of 2021. Gross profit margin decreased from 42.9% for the same period of 2021 to 37.0% during the Reporting Period which was mainly due to the decrease in gross profit margin from sales of tap water and household meter installation.

#### ***1.3.1 Tap water supply***

##### **1.3.1.1 Sales of tap water**

During the Reporting Period, the gross profit of the Group for sales of tap water under tap water supply operations amounted to RMB0.3 million, representing a decrease of 98.7% from RMB25.0 million for the same period of 2021. Its corresponding gross profit margin decreased from 14.3% for the six months ended 30 June 2021 to 0.2% for the Reporting Period. The decrease was mainly due to the scale effect of the newly constructed water treatment plant which has not yet to materialise.

##### **1.3.1.2 Engineering installation**

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB136.0 million, representing a decrease of 13.1% from RMB156.5 million for the same period of 2021. Its corresponding gross profit margin decreased from 62.6% for the same period of 2021 to 58.5% for the Reporting Period. The decrease was mainly due to the upgrade of the Group's water supply pipes to higher quality stainless steel pipes in order to enhance the quality of water supply and the impact of the adjustment of the policy on household meter charges.

#### ***1.3.2 Wastewater treatment***

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB117.8 million, increased by 38.4% from RMB85.1 million for the same period of 2021. The corresponding gross profit margin increased from 39.7% for the six months ended 30 June 2021 to 44.6% during the Reporting Period. The increase was mainly due to the increase in the sewage treatment volume and the economies of scale being fully utilised.

#### **1.4 Other revenue**

During the Reporting Period, the Group's other revenue amounted to RMB45.8 million, representing an increase of 269.4% from RMB12.4 million for the same period of 2021. The increase was mainly due to the receipt of RMB30.9 million subsidy for increased sludge treatment for the period from September 2018 to August 2021 during the Reporting Period.

#### **1.5 Cost of sales**

During the Reporting Period, the Group's cost of sales amounted to RMB12.5 million, representing an increase of 16.8% from RMB10.7 million for the same period of 2021. The increase was mainly due to the increase in staff wages and selling expenses.

#### **1.6 Management Expenses**

During the Reporting Period, the Group's management expenses amounted to RMB45.6 million, which was essentially the same as compared to RMB45.6 million for the same period of 2021.

#### **1.7 Finance costs**

During the Reporting Period, the Group's finance costs amounted to RMB67.1 million, representing an increase of 17.1% from RMB57.3 million for the same period of 2021. The increase was mainly due to the increase in finance costs as the interest previously capitalized was expensed following the fixed assets recognized from waterworks project.

#### **1.8 Income tax expense**

During the Reporting Period, the Group's income tax expenses amounted to RMB22.8 million, representing a decrease of 1.7% from RMB23.2 million for the same period of 2021. The decrease was mainly due to the impact of deferred income tax. As of 30 June 2021 and 2022, the effective tax rates of the Group were 14.7% and 15.8%, respectively.

#### **1.9 Net Profit and Net Profit Margin**

Based on the above reasons, during the Reporting Period, the Group's net profit amounted to RMB133.1 million, representing an increase of 6.7% from RMB124.8 million for the same period in 2021. Net profit margin increased from 18.6% for the six months ended 30 June 2021 to 19.1% for the Reporting Period.

## 2. Analysis of Key Items in the Balance Sheet

### 2.1 Accounts receivable

Accounts receivable of the Group were RMB486.1 million and RMB548.8 million as of 31 December 2021 and as at the end of the Reporting Period, respectively. The increase was mainly due to an increase in accounts receivable as a result of the impact of COVID-19 and financial payments.

The table below sets forth the average turnover days of our accounts receivable during indicated periods:

	Six months ended 30 June	
	2022	2021
Average turnover days of accounts receivable <sup>(1)</sup>	<u>133</u>	<u>117</u>

*Note:*

- (1) Turnover days of accounts receivable:  $180/\text{number of accounts receivable turnover}$ , number of accounts receivable turnover:  $\text{operating income}/\text{average balance of accounts receivable}$ .

### 2.2 Inventories

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) were approximately RMB53.7 million and RMB110.9 million as of 31 December 2021 and as at the end of the Reporting Period, respectively. The increase was mainly due to an increase in the number of uncompleted household meter projects.

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

	Six months ended 30 June	
	2022	2021
Average turnover days of inventories receivable <sup>(2)</sup>	<u>34</u>	<u>17</u>

*Note:*

- (2) Turnover days of inventories receivable:  $180/\text{number of inventories turnover}$ , number of inventories turnover:  $\text{operating cost}/\text{average balance of inventories}$ .

### ***2.3 Other receivables***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's other receivables were RMB148.1 million and RMB150.0 million, respectively. The increase was mainly due to an increase in security deposits.

### ***2.4 Fixed assets***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's fixed assets were RMB3,324.8 million and RMB3,251.3 million, respectively. The decrease was mainly due to depreciation charges.

### ***2.5 Construction in progress***

As of 31 December 2021 and as at the end of the Reporting Period, the balance of construction in progress of the Group were RMB318.0 million and RMB421.2 million, respectively. The increase was mainly due to the construction of new sewage treatment facilities and tap water pipelines network.

### ***2.6 Intangible assets***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's intangible assets were RMB1,387.9 million and RMB1,406.5 million, respectively. The increase was mainly due to the acquisition of land use rights for the expansion of the Group's wastewater treatment business.

### ***2.7 Long-term deferred expenses***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's long-term deferred expenses were RMB238.1 million and RMB225.5 million, respectively. The decrease was mainly due to amortization.

### ***2.8 Short-term borrowings***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's short-term borrowings were RMB239.3 million and RMB180.1 million, respectively. The decrease was mainly due to loan restructuring.

## **2.9 Accounts payable**

As of 31 December 2021 and as at the end of the Reporting Period, the Group's accounts payable were RMB539.8 million and RMB368.5 million, respectively. The decrease was mainly due to the timely payment for works and materials.

The table below sets forth the average turnover days of our accounts payable during the indicated periods:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
Average turnover days of accounts payable <sup>(3)</sup>	<b>186</b>	<b>310</b>

*Note:*

- (3) Turnover days of accounts payable:  $180/\text{number of accounts payable turnover}$ , number of accounts payable turnover:  $\text{operating cost}/\text{average balance of accounts payable}$ .

## **2.10 Contract liabilities**

As of 31 December 2021 and as at the end of the Reporting Period, the Group's contract liabilities were RMB194.0 million and RMB248.5 million, respectively. The increase was mainly due to an increase in receivables from household meter installations.

## **2.11 Other payables**

As of 31 December 2021 and as at the end of the Reporting Period, the Group's other payables were RMB179.4 million and RMB271.8 million, respectively. The increase was mainly due to an increase in dividends payable and payable to government.

## **2.12 Non-current liabilities due within one year**

As of 31 December 2021 and as at the end of the Reporting Period, the Group's non-current liabilities due within one year were RMB927.4 million and RMB422.8 million, respectively. The decrease in liabilities was due to the fact that in April this year, the Company exercised the issuer's option to adjust the coupon rate of the 19 Lu Water 01 Bonds from 5.99% to 3.7% and the investors exercised the resale option for a total amount of RMB395.5 million. As a result of the above, the principle of the 19 Lu Water 01 Bonds will be repaid in one lump sum after two years and therefore will no longer be accounted for as a non-current liability due within one year. As the 19 Lu Water 02 Bonds will have been matured for 3 years in August this year and therefore

no resale has been triggered during the Reporting Period, we still treat it as non-current liability due within one year.

### ***2.13 Long-term borrowings***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's long-term borrowings were RMB1,390.7 million and RMB1,826.7 million, respectively. The increase was mainly due to the replacement of the maturing 2019 Public Issuance of Bonds (Phase I).

### ***2.14 Long-term payables***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's long-term payables were RMB585.3 million and RMB748.5 million, respectively. The increase was mainly due to the addition of RMB175 million of new local government bonds in the Reporting Period by the Xinglu Wastewater.

### ***2.15 Deferred income***

As of 31 December 2021 and as at the end of the Reporting Period, the Group's deferred income were RMB268.6 million and RMB256.9 million, respectively. The decrease was mainly due to monthly amortisation of government grants.

## **3. Liquidity and Financial Resources**

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern and optimize the debt and equity balance to maximize the return to shareholders of the Company. 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 cash and cash equivalents) and total equity (comprising of paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

As at the end of the Reporting Period, the cash and bank balances of the Group amounted to approximately RMB890.9 million (at the end of 2021: RMB871.7 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,006.8 million (at the end of 2021: RMB1,629.9 million), including bank and other borrowings. Approximately 87.53% 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 total equity divided by debts (including long-term and short-term loans and bonds payable) less bank balances and cash) was 244.1% (at the end of 2021: 351.0%).

The asset-liability ratio of the Group (calculated by net debts divided by total assets) increased from approximately 25.3% as at the end of 2021 to approximately 40.2% as at the end of the Reporting Period. The increase was mainly due to the increase in borrowings.

## **(V) EMPLOYEES AND REMUNERATION POLICY**

As at the end of the Reporting Period, the Group had 987 employees (at the end of 2021: 1,178 employees)<sup>(4)</sup>. During the Reporting Period, employee salaries and benefits expenses amounted to RMB80.8 million (for the six months ended 30 June 2021: RMB71.4 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.

*Note:*

- (4) Due to the consolidation of the Company's business, we have outsourced some of our operations and reduced the number of dispatched staff.

During the Reporting Period, the Group did not incur any significant labour disputes that had material impact on the Group's normal business operations.

## **(VI) INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING**

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with a value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. As at the end of the Reporting Period, HK\$400.8 million of the proceeds from the initial public offering had been fully used by the Group in the manner disclosed in the prospectus.

## **(VII) MAJOR ACQUISITIONS AND DISPOSALS**

During the Reporting Period, the Group had no material acquisitions and disposals in respect of subsidiaries, associates and joint ventures.

## **(VIII) PLEDGED ASSETS OF THE GROUP**

As at the end of the Reporting Period, the Group had bank borrowings secured by the operating concessions for all water supply projects of the Company in Jiangyang District, the charging right for certain wastewater treatment projects, several buildings and tap water plants of Weiyuan Qingxi Water, and the charging right for wastewater treatment projects of Fanxing Environmental in townships and rural areas in Jiangyang District, Luzhou City.

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

## **(IX) FOREIGN EXCHANGE RISKS**

During the Reporting Period, the Group carried out business in the PRC and received revenue and paid its costs/expenses in RMB. As at the end of the Reporting Period, the Group had unutilized monetary funds in Hong Kong dollar, and confirmed that there was no foreign exchange gains during the Reporting Period (and recognised a net foreign exchange gain of approximately RMB52,682.27 in the Reporting Period). The Group does not currently hedge its exposure to foreign currencies.

## **(X) CONTINGENT LIABILITIES**

In the course of performance of the Cooperation Agreement for Wastewater Treatment Equipment Supply and Installation in the Townships and Rural Areas in Luzhou City entered into between Fanxing Environmental and Sichuan Changjiang Crane Co., Ltd.(四川長江起重機有限責任公司) (“**Changjiang Crane**”), dispute related to contract price arose between both parties due to the quality of equipment supplied by Changjiang Crane not meeting contract stipulation. As Changjiang Crane has entered into bankruptcy proceedings, the bankruptcy administrator of Changjiang Crane has filed a lawsuit on behalf of Changjiang Crane in March 2021, seeking payment of RMB42.82 million and liquidated damages of RMB17.15 million, as well as litigation costs from Fanxing Environmental. The case has not yet been concluded as the date of this announcement.

## **(XI) SIGNIFICANT INVESTMENT HELD**

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB55.3 million (at the end of 2021: approximately RMB55.3 million), which mainly represents the Group’s equity investment of 12.72% 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.

## **(XII) EVENTS AFTER THE REPORTING PERIOD**

As at the date of this announcement, the Group did not have other significant events after the Reporting Period.

### **(XIII) OTHER MATTERS**

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 had basically no impact on the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022.

## **III. OTHER INFORMATION**

### **(I) INTERIM DIVIDENDS**

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

### **(II) PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

As at the end of 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, supervisors and their respective associates had any business or interest that competes or might compete with the business of the Group or had or might 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 has adopted all the code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Listing Rules, 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 B.2.2 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 supervisory committee and the senior management has expired in December 2018. Non-employee representative Directors of the second session of the Board were re-elected and appointed at the extraordinary meeting of the Company convened on 4 March 2022 and employee representative Directors and supervisors were appointed at an employee representative meeting of the Company held on the same day. For details, please refer to the announcements of the Company dated 26 January 2022 and 4 March 2022.

During the Reporting Period, save for code provision B.2.2 of the Corporate Governance code, the Company has been complied with all code provisions under 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 set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions 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 strictly 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 information that is publicly available to the Company and within the knowledge of the Board, during the Reporting Period and up to the date of this announcement, the Company has maintained at least 25% of the total issued share capital of the Company to be held by the public in accordance with the Listing Rules.

#### **(VII) AUDIT COMMITTEE**

The audit committee of the Company (the “**Audit Committee**”) consists of independent non-executive Directors, namely Mr. Fu Ji, Ms. Ma Hua and Mr. Liang Youguo, with Mr. Fu Ji 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 Hong Kong Stock Exchange.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 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 2022 have been reviewed by the Company's auditor, ShineWing Certified Public Accountants LLP, in accordance with the China Standard on Review No. 2101-Engagements to Review Financial Statements. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 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 2022 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.\***  
*Chairman*  
**Zhang Qi**

Luzhou, the PRC  
26 August 2022

*As at the date of this announcement, the Board comprises of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Ms. Huang Mei; (ii) three non-executive Directors, namely Mr. Chen Bing, Mr. Yu Long and Ms. Hu Fefen; and (iii) three independent non-executive Directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.*

\* *For identification purposes only*