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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 2023

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2023:

- Operating revenue amounted to approximately RMB640.5 million, representing a decrease of approximately 8.3% from the same period of last year.
- Net profit amounted to approximately RMB85.0 million, representing a decrease of approximately 36.1% from the same period of last year.
- Net profit attributable to the owners of the parent company amounted to approximately RMB79.2 million, representing a decrease of approximately 35.0% from the same period of last year.
- Basic earnings per share amounted to approximately RMB0.09, representing a decrease of approximately 35.7% 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 2023.

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 2023 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2022 as follows:

I. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION OF THE GROUP

1. CONSOLIDATED INCOME STATEMENT

Items	Six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Total operating revenue	640,457	698,079
Of which: Operating revenue	640,457	698,079
Total operating cost	549,709	579,749
Of which: Operating cost	422,357	439,900
Taxes and surcharges	15,809	14,621
Cost of sales	12,849	12,459
Management expenses	45,453	45,636
Research and development expenses	45	0
Finance costs	53,195	67,132
Add: Other revenue	32,480	45,825
Investment income (represented by a sign of “-” for loss)	0	(77)
Credit impairment loss (represented by a sign of “-” for loss)	(21,474)	(9,201)
Asset impairment loss (represented by a sign of “-” for loss)	0	0
Income from disposal of assets (represented by a sign of “-” for loss)	0	0
Operating profit (represented by a sign of “-” for loss)	101,755	154,878
Add: Non-operating revenue	2,165	2,218
Less: Non-operating expense	186	1,183
Total profit (represented by a sign of “-” for total loss)	103,734	155,912
Less: Income tax expense	18,744	22,842
Net profit (represented by a sign of “-” for net loss)	84,990	133,071
(1) Classified by continuing operation	84,990	133,071
1. Net profit for continuing operation (represented by a sign of “-” for net loss)	84,990	133,071
(2) Classified by attribution of ownership	84,990	133,071
1. Net profit attributable to owners of the parent company (represented by a sign of “-” for net loss)	79,193	121,918
2. Minority profit and loss (represented by a sign of “-” for net loss)	5,797	11,152

Items	Six months ended 30 June	
	2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)
Other comprehensive income, net after tax	0	0
Other comprehensive income attributable to the owners of the parent company, net after tax	0	0
(1) Other comprehensive income that cannot be reclassified into profit or loss	0	0
1. Changes in fair value of investments in other equity instruments	0	0
Total comprehensive income	84,990	133,071
Total comprehensive income attributable to the shareholders of the parent company	79,193	121,918
Total comprehensive income attributable to minority shareholders	5,797	11,152
Earnings per share		
(1) Basic earnings per share (RMB/share)	0.09	0.14
(2) Diluted earnings per share (RMB/share)	0.09	0.14

2. CONSOLIDATED BALANCE SHEET

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Current assets:		
Monetary funds	691,370	609,756
Bills receivable	1,100	1,750
Accounts receivable	532,018	526,385
Prepayments	24,216	27,759
Other receivables	118,206	135,172
Inventories	86,318	89,476
Contract assets	0	0
Other current assets	<u>104,074</u>	<u>98,879</u>
Total current assets	<u>1,557,302</u>	<u>1,489,176</u>
Non-current assets:		
Long-term receivables	3,219	5,919
Long-term debt investment	55,867	55,867
Investments in other equity instruments	21	21
Properties held for investment	2,899	2,978
Fixed assets	3,356,539	3,381,791
Construction in progress	425,625	354,631
Right-of-use assets	118	191
Intangible assets	1,379,868	1,396,699
Goodwill	28,139	28,139
Long-term deferred expenses	196,442	210,243
Deferred income tax assets	17,404	15,022
Other non-current assets	<u>171,331</u>	<u>199,891</u>
Total non-current assets	<u>5,637,472</u>	<u>5,651,392</u>
Total assets	<u><u>7,194,774</u></u>	<u><u>7,140,568</u></u>

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Current liabilities:		
Short-term borrowings	60,058	160,126
Accounts payable	332,746	376,117
Contract liabilities	191,293	224,418
Staff wages payable	43,305	44,148
Tax payable	16,694	20,345
Other payables	259,232	228,942
Of which: Interests payable	0	0
Dividends payable	42,986	0
Non-current liabilities due within one year	604,618	216,717
Other current liabilities	2,306	2,010
	<hr/>	<hr/>
Total current liabilities	1,510,252	1,272,823
Non-current liabilities:		
Long-term borrowings	1,631,352	1,920,928
Bonds payables	0	103,791
Lease liabilities	0	0
Long-term payables	942,035	744,350
Long-term staff wages payable	0	0
Estimated liabilities	11,352	8,940
Deferred income	225,964	243,132
Deferred income tax liabilities	5,418	5,584
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Total non-current liabilities	2,816,121	3,026,725
	<hr/>	<hr/>
Total liabilities	4,326,373	4,299,548
Shareholders' equity:		
Share capital	859,710	859,710
Capital reserve	420,447	420,447
Other comprehensive income	(67)	(67)
Special reserve	17,288	16,773
Surplus reserve	64,032	64,032
Undistributed profits	1,311,442	1,275,235
	<hr/>	<hr/>
Total shareholders' equity attributable to the parent company	2,672,852	2,636,130
Minority shareholders' equity	195,549	204,890
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Total shareholders' equity	2,868,401	2,841,020
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Total liabilities and shareholders' equity	7,194,774	7,140,568

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with “Accounting Standards for Business Enterprises – General Principles” issued by the Ministry of Finance of the People’s Republic of China, together with specific accounting standards, application guidance, interpretations and other related regulations issued and revised thereafter (collectively, the “ASBEs”), the China Securities Regulatory Commission’s Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reports (Revised 2014) and related regulations, and relevant disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial statements are prepared on a going concern basis. The Group has evaluated the going concern ability within 12 months since the end of the Reporting Period and has not found any event and condition causing substantial doubt about the going concern ability.

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 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	Six months ended 30 June	
	2023	2022
	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(unaudited)
Type of services		
– Water supply business	184,886	181,991
– Wastewater treatment business	274,923	263,903
– Engineering business	155,182	232,319
– Others	25,466	19,866
	<u>640,457</u>	<u>698,079</u>
Revenue	<u>640,457</u>	<u>698,079</u>

The above revenue of the Group is 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
- Wastewater treatment – provision of wastewater treatment services

The Company and its certain subsidiaries mainly provide tap water supply and engineering services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, “**Tap water supply segment**”, because, in the opinion of the Directors, they have similar economic characteristics and provide tap water supply, installation services and others 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, 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	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Segment revenue*		
Tap water supply		
– From external customer		
– Water supply business	184,886	181,991
– Engineering business	155,182	232,319
Wastewater treatment		
– From external customers		
– Operating services	274,923	263,903
Others	25,466	19,866
Revenue	640,457	698,079
Segment profits		
– Tap water supply	(8,372)	29,867
– Wastewater treatment	94,456	101,187
– Others	(1,094)	2,017
Net profit	84,990	133,071

* *Inter-segment sales for the six months ended 30 June 2022 and 2023 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 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Segment assets		
– Tap water supply	4,855,017	5,031,402
– Wastewater treatment	2,975,991	2,724,577
– Others	19,995	29,628
Elimination	<u>(673,633)</u>	<u>(660,061)</u>
Consolidated total assets	<u><u>7,177,370</u></u>	<u><u>7,125,546</u></u>
Segment liabilities		
– Tap water supply	2,732,457	2,885,957
– Wastewater treatment	1,586,355	1,400,263
– Others	2,143	12,535
Elimination	<u>–</u>	<u>(4,791)</u>
Consolidated total assets	<u><u>4,320,955</u></u>	<u><u>4,293,964</u></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

	Six months ended 30 June	
	2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)
Interest expenses	56,252	71,283
Less: Interest incomes	3,145	4,700
Add: Exchange loss	(40)	(53)
Add: Other expenses	<u>128</u>	<u>602</u>
Total	<u><u>53,195</u></u>	<u><u>67,132</u></u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current income tax expense	21,293	24,010
Deferred income tax expense	(2,549)	(1,169)
	<hr/>	<hr/>
Total	<u>18,744</u>	<u>22,841</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and its implementation regulations, the applicable tax rate of the subsidiaries for the six months ended 30 June 2023 and 2022 is as follows:

Applicable EIT rate

Name of taxpayer	Six months ended 30 June	
	2023	2022
Luzhou Xinglu Water (Group) Co., Ltd.* (“Water Headquarters”) <i>(See note a)</i>	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“Lu County Branch”) <i>(See note a)</i>	15%	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“Hejiang Water”) <i>(See note a)</i>	15%	15%
Luzhou Nanjiao Water Co., Ltd. (“Nanjiao Water”) <i>(See note a)</i>	15%	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“Beijiao Water”) <i>(See note a)</i>	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“Sitong Engineering”) <i>(See note a)</i>	15%	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“Xinglu Wastewater”) <i>(See note a)</i>	15%	15%
Luzhou Xinghe Water Governance Co., Ltd. (“Xinghe Water Governance”) <i>(See note a)</i>	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“Weiyuan Water”) <i>(See note a)</i>	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“Weiyuan Installation”) <i>(See note a)</i>	15%	2.5%
Luzhou Fanxing Environmental Development Co., Ltd. (“Fanxing Environmental”) <i>(See note a)</i>	15%	12.5%
Dechang Xinglu Water Co., Ltd. (“Dechang Water”) <i>(See note a)</i>	15%	2.5%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“Qingbaijiang Water”) <i>(See note a)</i>	15%	15%
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“Xingjia Environmental”)	20%	2.5%
Leibo Xinglu Water Co., Ltd. (“Leibo Water”) <i>(See note a)</i>	15%	15%
Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (“Crystal Trading”)	See notes c, d, e	2.5%
Zhihui Water Science and Technology Co., Ltd. (“Zhihui Technology”)	See notes c, d, e	2.5%
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“Sitong Design”)	See notes c, d, e	2.5% or 5%
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“Xingxu Water”)	See notes c, d, e	2.5%
Xuyong Yongxing Water Governance Co., Ltd. (“Yongxing Water Governance”)	See notes c, d, e	2.5%

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 Xinglu Water Headquarters, Lu County Branch, Hejiang Water, Nanjiao Water, Beijiao Water, Sitong Engineering, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, Weiyuan Installation, Fanxing Environmental, Dechang Water, Qingbaijiang Water and Leibo 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
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 the State Administration of Taxation on Issues Concerning the Implementation of Preferential Income Tax Policies to Support the Development of Small and Low-Profit Enterprises and Individual Business (Notice 2021 No. 12) and Notice of the Ministry of Finance and the State Administration of Taxation on Further Implementing the Preferential Income Tax Policies for Micro and Small Enterprises (Cai Shui [2022] No. 13), for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, it shall be included in the taxable income at a reduced rate of 12.5%, and the enterprise income tax shall be paid at the tax rate of 20%; for the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, it shall be included in the taxable income at a reduced rate of 25% and the enterprise income tax shall be paid at the tax rate of 20%.
- 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 (MOF and SAT 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.
- e. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Further Implementing the Preferential Income Tax Policies for Micro and Small Enterprises (Cai Shui [2022] No. 13), for the part of annual taxable income exceeding RMB1 million but not exceeding RMB3 million, it shall be included in the taxable income at a reduced rate of 25% and the enterprise income tax shall be paid at the tax rate of 20%.
- f. According to Article 1 of the Notice of the Ministry of Finance and the State Administration of Taxation on Further Implementing the Preferential Income Tax Policies for Micro and Small Enterprises (MOF and SAT Notice 2023 No. 6), for the part of small and low-profit enterprises whose annual taxable income does not exceed RMB1 million, it shall be included in the taxable income at a reduced rate of 25%, and the enterprise income tax shall be paid at the tax rate of 20% from 1 January 2023 to 31 December 2024.

- g. According to Article 34 of the Enterprise Income Tax Law of the People's Republic of China, the investment amount of enterprises for the purchasing of special equipment for environmental protection, energy and water conservation and work safety may be offset against tax according to a proportion. According to Article 100 of the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, where an enterprise purchases and actually uses special equipment for environmental protection, energy and water conservation and work safety stipulated in the Catalogue of Enterprise Income Tax Preferences for Special Equipment for Environmental Protection, the Catalogue of Enterprise Income Tax Incentives for Special Equipment for Energy and Water Conservation, and the Catalogue of Enterprise Income Tax Incentives for Special Equipment for Work Safety, 10% of the investment amount in such special equipment may be offset against its tax payable for the current year; where the tax payable is insufficient for the credit, the excess may be carried forward for credit in the following five taxable years.

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 2022 was declared to the shareholders of the Company.

The Board of the Company resolved not to distribute an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: (unaudited) Nil).

7. EARNINGS PER SHARE

Earnings per share is based on the following data:

	Six months ended 30 June	
	2023	2022
Net profit attributable to shareholders of the parent (<i>RMB'000</i>)	<u>79,193</u>	<u>121,918</u>
Weighted average number of ordinary shares issued (<i>'000</i>)	<u>859,710</u>	<u>859,710</u>
Earnings per share (<i>RMB</i>)	<u>0.09</u>	<u>0.14</u>

No diluted earnings per share was presented for the six months ended 30 June 2023 and 2022 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

8. ACCOUNTS RECEIVABLE

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Accounts receivable	590,625	574,878
Less: Allowance for credit losses	<u>58,607</u>	<u>48,493</u>
Total accounts receivable	<u>532,018</u>	<u>526,385</u>

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

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Within 1 year (inclusive)	368,473	386,538
1 to 2 years	138,809	139,577
2 to 3 years	63,788	39,393
3 to 4 years	11,277	1,629
4 to 5 years	1,944	6,251
Over 5 years	<u>6,334</u>	<u>1,490</u>
Total	<u>590,625</u>	<u>574,878</u>

9. ACCOUNTS PAYABLE

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

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
Within 1 year (inclusive)	83,684	150,464
1 to 2 years	69,578	106,477
2 to 3 years	91,316	7,369
3 to 4 years	2,749	93,166
4 to 5 years	67,863	8,832
Over 5 years	<u>17,556</u>	<u>9,809</u>
Total	<u><u>332,746</u></u>	<u><u>376,117</u></u>

10. SHARE CAPITAL

	As at 30 June 2023 <i>RMB'000</i> (unaudited)	As at 31 December 2022 <i>RMB'000</i> (audited)
At the end of the period	<u><u>859,710</u></u>	<u><u>859,710</u></u>
	<i>'000 shares</i>	<i>'000 shares</i>
Shares of RMB1 each		
– Domestic shares (Note)	644,770	644,770
– H shares	<u>214,940</u>	<u>214,940</u>
Total	<u><u>859,710</u></u>	<u><u>859,710</u></u>

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 2 January 2023, the CPC Central Committee and the State Council issued the Opinions on Carrying out the Key Work of Comprehensively Promoting Rural Revitalisation in 2023, proposing to strengthen water conservancy infrastructure, promote the construction of large-scale water supply projects in rural areas, and further accelerate the comprehensive reform of agricultural water prices. Focusing on villages and townships with concentrated populations and villages surrounding water source protection areas, the rural domestic wastewater treatment shall be promoted by category and step by step. The introduction of the opinions brings positive impacts for promoting the standardized operation, development and process of integration of water supply and drainage in townships.

At present, the market for urban water supply and domestic wastewater treatment has been becoming saturated, and the new scale-based market share of wastewater has shown a trend of concentrating on large cross-regional enterprises, and the water industry has inevitably ushered in new changes. Industrial wastewater treatment is an important direction of the water industry for development in the future. The industry in China has presented a new development pattern, which brings new opportunities in the sub-sector of industrial wastewater treatment. Differences in industrial classification and treatment difficulty impose higher requirements for treatment technologies and capabilities. The technology productization will reshape the water industry landscape. Water companies without technology productization, as the core competitiveness of entering the industrial wastewater treatment market, are highly replaceable.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2023, the Company will continue to implement the development philosophy of “steady development of the principal water supply and drainage business, vertical extension of upstream and downstream industries, horizontal expansion of regional business”, and continue to promote the integration of water supply and drainage in townships. The Company will focus on expanding the industrial wastewater treatment market, especially expanding the regional liquor-making wastewater treatment market. The Company will continue to improve the “internet + production management” intelligent operation of the wastewater treatment sector, and to build the “intelligent water” technology brand. Efforts will be made to tap the internal potential, reduce costs and increase profits to ensure its sustainable development.

(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, Qingbaijiang area in Chengdu City, Leibo and Dechang areas in Liangshan Prefecture, and Litang in Ganzi Tibetan Autonomous Prefecture, the PRC, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 city wastewater treatment plants, and 2 industrial park wastewater treatment plant and 7 entrusted operation wastewater treatment plants, and we also operated several wastewater treatment facilities in townships and rural areas. Our total treatment capacity is approximately 1.371 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 remained unchanged as compared to the end of 2022. The average utilization rate of tap water plants is 69.3%.

During the Reporting Period, our total water sales volume were approximately 78.1 million tons, representing an increase of 2.09% from our sales of tap water of approximately 76.5 million tons for the six months ended 30 June 2022. The increase was mainly due to the development of urban construction, as a result of which 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 (excluding emergency back-up wastewater treatment plants), with a daily treatment capacity of approximately 484,000 tons in aggregate, an addition of 50,000 tons in Chengnan Wastewater Treatment Plant (Phase II) and the average load rate of wastewater treatment plants stood at 75.51%; two industrial park wastewater treatment plant with a daily treatment capacity of approximately 30,000 tons in aggregate; and seven entrusted operation wastewater treatment plants with a daily treatment capacity of approximately 30,000 tons in aggregate; a total of 204 wastewater treatment facilities in the townships and rural areas with a daily treatment capacity of approximately 53,000 tons.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 72.6 million tons, representing a decrease of 1.89% as compared with approximately 74.0 million tons for the six months ended 30 June 2022. Our total volume of wastewater treatment with charges for the Reporting Period amounted to approximately 82.4 million tons (including entrusted operation and emergency projects), which represents an increase of 3.13% from approximately 79.9 million tons for the six months ended 30 June 2022.

(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 RMB640.5 million, representing a decrease of 8.3% from RMB698.1 million for the same period of 2022. The decrease was mainly due to a decrease in revenue generated from engineering installation impacted by the real estate market, resulting in a decrease in overall revenue during the Reporting Period.

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 RMB184.9 million, representing an increase of 1.6% from RMB182.0 million for the same period of 2022. The increase was mainly due to the increase in sales volume of tap water. Revenue generated from sales of tap water accounted for 26.1% and 28.9% of our total revenue for the six months ended 30 June 2022 and 2023, respectively.

1.1.1.2 Engineering installation

Revenue of the Group generated from installation services amounted to RMB155.2 million, representing a decrease of 33.2% from RMB232.3 million for the same period of 2022. The decrease was mainly due to a decrease in closely related household meter installation projects under the overall downturn of the real estate market and the adjustment of tariff policy during the Reporting Period. Revenue generated from installation services accounted for 33.3% and 24.2% of our total revenue for the six months ended 30 June 2022 and 2023, respectively.

1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group from operating services of wastewater treatment amounted to RMB274.9 million, representing an increase of 4.2% from RMB263.9 million for the same period of 2022. The increase was mainly due to an increase in the charged treatment volume of wastewater. Revenue generated from wastewater treatment operation accounted for 37.9% and 42.9% of our total revenue for the six months ended 30 June 2022 and 2023, respectively.

1.2 *Operating cost*

During the Reporting Period, the Group's operating cost amounted to RMB422.4 million, decreased by 4.0% from RMB439.9 million for the same period of 2022. The decrease was mainly due to a year-on-year decrease in revenue and costs of household meter installation projects during the Reporting Period.

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 RMB193.8 million, representing an increase of 6.7% from RMB181.7 million for the same period of 2022. The increase was mainly due to an increase in depreciation expenses for new wastewater treatment plants, etc. Operating cost associated with tap water supply operations accounted for 41.3% and 45.9% of our total operating cost for the six months ended 30 June 2022 and 2023, respectively.

1.2.1.2 Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB54.3 million, representing a decrease of 43.6% from RMB96.3 million for the same period of 2022. The decrease was mainly due to a decrease in the household meter installation projects during the Reporting Period as compared to the same period of last year, as well as the decrease in cost. Operating cost associated with installation services accounted for 21.9% and 12.9% of the total operating cost for the six months ended 30 June 2022 and 2023, respectively.

1.2.2 Wastewater Treatment

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB153.7 million, representing an increase of 5.2% from RMB146.1 million for the same period of 2022. The increase was mainly due to the year-on-year increase in depreciation expenses, etc. Operating cost from wastewater treatment operating services accounted for 33.2% and 36.4% of the total operating cost for the six months ended 30 June 2022 and 2023, respectively.

1.3 *Gross profit and gross profit margin*

As a result of the above, the Group's gross profit amounted to RMB218.1 million during the Reporting Period, representing a decrease of 15.5% from RMB258.2 million for the same period of 2022. Gross profit margin decreased from 37.0% for the same period of 2022 to 34.1% during the Reporting Period which was mainly due to the decrease in gross profit margin from sales of tap water and wastewater treatment.

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 RMB-8.9 million, representing a decrease of 3,066.7% from RMB0.3 million for the same period of 2022. Its corresponding gross profit margin decreased from 0.2% for the six months ended 30 June 2022 to -4.8% 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 RMB100.9 million, representing a decrease of 25.8% from RMB136.0 million for the same period of 2022. Its corresponding gross profit margin increased from 58.5% for the same period of 2022 to 65.0% for the Reporting Period. The increase was mainly due to the optimization of project plan design and strengthening of engineering cost control.

1.3.2 Wastewater treatment

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB121.2 million, increased by 2.9% from RMB117.8 million for the same period of 2022. The corresponding gross profit margin decreased from 44.6% for the six months ended 30 June 2022 to 44.1% during the Reporting Period. The decrease was mainly due to the impact of increase in depreciation following the fixed assets recognized from Naxi Project (Phase III) Wastewater Treatment Plant in May 2022, Hejiang Zhangwan Wastewater Treatment Plant in August 2022 and Chengnan Project (Phase II) Wastewater Treatment Plant in 2023.

1.4 *Other revenue*

During the Reporting Period, the Group's other revenue amounted to RMB32.5 million, representing a decrease of 29.0% from RMB45.8 million for the same period of 2022. The decrease was mainly due to the receipt of RMB30.9 million subsidy for increased sludge treatment for the period from September 2018 to August 2021 for the same period of last year, and the receipt of RMB15.9 million subsidy for increased sludge treatment during the Reporting Period, representing a year-on-year decrease.

1.5 *Cost of sales*

During the Reporting Period, the Group's cost of sales amounted to RMB12.8 million, representing an increase of 2.4% from RMB12.5 million for the same period of 2022. The increase was mainly due to the increase in labor protection fees.

1.6 *Management expenses*

During the Reporting Period, the Group's management expenses amounted to RMB45.5 million, representing a decrease of 0.2% from RMB45.6 million for the same period of 2022. The decrease was mainly due to the decrease in repair expenses, etc..

1.7 *Research and development expenses*

During the Reporting Period, the Group's research and development expenses amounted to RMB45,410, which was mainly attributable to the research and development expenses for the C-MBR integrated wastewater treatment equipment developed by Fanxing Environmental.

1.8 Finance costs

During the Reporting Period, the Group's finance costs amounted to RMB53.2 million, representing a decrease of 20.7% from RMB67.1 million for the same period of 2022. The decrease was mainly due to the reduction of interest on existing bank loans by means of internal rate cut by banks and low rate replacement by other banks for existing interest-bearing liabilities through communication and negotiation with banks. At the same time, corporate bonds that have reached the sell-back period were replaced by low-rate bank loans, and the rate of corporate bonds that have not been sold back was lowered.

1.9 Income tax expense

During the Reporting Period, the Group's income tax expenses amounted to RMB18.7 million, representing a decrease of 18.0% from RMB22.8 million for the same period of 2022. The decrease was mainly due to the common impact of a decrease in current income tax expense calculated in accordance with the Tax Law and related regulations and an increase in deferred income tax. For the six months ended 30 June 2022 and 2023, the effective tax rates of the Group were 15.8% and 15.0%, respectively.

1.10 Net profit and net profit margin

Based on the above reasons, during the Reporting Period, the Group's net profit amounted to RMB85.0 million, representing a decrease of 36.1% from RMB133.1 million for the same period in 2022. Net profit margin decreased from 19.1% for the six months ended 30 June 2022 to 13.3% for the Reporting Period.

2. Analysis of Key Items in the Balance Sheet

2.1 Accounts receivable

Accounts receivable of the Group were RMB526.4 million and RMB532.0 million as of 31 December 2022 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 increase in water fee receivables, wastewater treatment fees, etc.

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

	Six months ended 30 June	
	2023	2022
Average turnover days of accounts receivable ⁽¹⁾	<u>149</u>	<u>133</u>

Note:

- (1) Turnover days of accounts receivable: 180/number of accounts receivable turnover, number of accounts receivable turnover: operating revenue/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 RMB89.5 million and RMB86.3 million as of 31 December 2022 and as at the end of the Reporting Period, respectively. The decrease was mainly due to a decrease in the inventories after the settlement of completed household meter projects.

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

	Six months ended 30 June	
	2023	2022
Average turnover days of inventories receivable ⁽²⁾	<u>37</u>	<u>34</u>

Note:

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

2.3 *Other receivables*

As of 31 December 2022 and as at the end of the Reporting Period, the Group's other receivables were RMB135.2 million and RMB118.2 million, respectively. The decrease was mainly due to an increase in bad debt provision as at the end of the Reporting Period as compared to the beginning of the year, which resulted in the decrease in net other receivables.

2.4 *Fixed assets*

As of 31 December 2022 and as at the end of the Reporting Period, the Group's fixed assets were RMB3,381.8 million and RMB3,356.5 million, respectively. The decrease was mainly due to depreciation charges.

2.5 *Construction in progress*

As of 31 December 2022 and as at the end of the Reporting Period, the balance of construction in progress of the Group were RMB354.6 million and RMB425.6 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 2022 and as at the end of the Reporting Period, the Group's intangible assets were RMB1,396.7 million and RMB1,379.9 million, respectively. The decrease was mainly due to normal amortization.

2.7 *Long-term deferred expenses*

As of 31 December 2022 and as at the end of the Reporting Period, the Group's long-term deferred expenses were RMB210.2 million and RMB196.4 million, respectively. The decrease was mainly due to normal amortization.

2.8 *Short-term borrowings*

As of 31 December 2022 and as at the end of the Reporting Period, the Group's short-term borrowings were RMB160.1 million and RMB60.1 million, respectively. The decrease was mainly due to the repayment of borrowings.

2.9 Accounts payable

As of 31 December 2022 and as at the end of the Reporting Period, the Group's accounts payable were RMB376.1 million and RMB332.7 million, respectively. The decrease was mainly due to the payment for works and materials, etc.

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

	Six months ended 30 June	
	2023	2022
Average turnover days of accounts payable ⁽³⁾	<u>151</u>	<u>186</u>

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 2022 and as at the end of the Reporting Period, the Group's contract liabilities were RMB224.4 million and RMB191.3 million, respectively. The decrease was mainly due to the transfer upon completion of household meter installations.

2.11 Other payables

As of 31 December 2022 and as at the end of the Reporting Period, the Group's other payables were RMB228.9 million and RMB259.2 million, respectively. The increase was mainly due to an increase in dividends payable.

2.12 Non-current liabilities due within one year

As of 31 December 2022 and as at the end of the Reporting Period, the Group's non-current liabilities due within one year were RMB216.7 million and RMB604.6 million, respectively. The increase was mainly due to the increase in long-term borrowings, bonds payable, long-term payables and others reclassified to non-current liabilities due within one year.

2.13 Long-term borrowings

As of 31 December 2022 and as at the end of the Reporting Period, the Group's long-term borrowings were RMB1,920.9 million and RMB1,631.4 million, respectively. The decrease was mainly due to reclassification of certain long-term borrowings to non-current liabilities due within one year.

2.14 Long-term payables

As of 31 December 2022 and as at the end of the Reporting Period, the Group's long-term payables were RMB744.4 million and RMB942.0 million, respectively. The increase was mainly due to an increase in special government bonds for Chengdong Wastewater Treatment Project (Phase II).

2.15 Deferred income

As of 31 December 2022 and as at the end of the Reporting Period, the Group's deferred income were RMB243.1 million and RMB226.0 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 RMB691.4 million (at the end of 2022: RMB609.8 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB3,178.9 million (at the end of 2022: RMB3,098.4 million), including bank and other borrowings. Approximately 67.9% of the bank 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 89.4% (at the end of 2022: 91.2%).

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 913 employees (at the end of 2022: 933 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB76.0 million (for the six months ended 30 June 2022: RMB80.0 million). The remunerations and benefits for employees include basic and floating wages, bonuses and staff benefits. The Group endeavours to keep the level of employees' remuneration in line with industry practices and prevailing market conditions, and such remuneration will be determined based on their performance. The Group also provides external and internal training programs for the employees.

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

(VI) MAJOR ACQUISITIONS AND DISPOSALS

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

(VII) 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 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.

(XIII) 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 gain during the Reporting Period (and recognised a net foreign exchange gain of approximately RMB40,021.94 in the Reporting Period). The Group does not currently hedge its exposure to foreign currencies.

(IX) CONTINGENT LIABILITIES

During the Reporting Period, as Zhong Jiao Jian Hongfeng Group Co., Ltd* (中交建宏峰集團有限公司) (“**Zhong Jiao Jian Hongfeng**”) signed a contract with Zheng Shanglin (鄭尚林) in the course of performance of the Contract on Civil Engineering Construction of Luzhou Nanjiao No. 2 Water Plant entered into with our Company, Zhong Jiao Jian Hongfeng handed over the project to Zheng Shanglin for construction and had dispute over payment with him. Currently, Zheng Shanglin has filed a lawsuit against Zhong Jiao Jian Hongfeng and our Company, demanding that our Company bear the payment responsibility to the extent of project payment payable, and the claim involved in the case is RMB13.40 million. As of the date of this announcement, the case had been heard in court but the judgment had not been laid down yet.

(X) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to approximately RMB55.9 million (at the end of 2022: approximately RMB55.9 million), which mainly represents the Group’s equity investment in 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.

(XI) EVENTS AFTER THE REPORTING PERIOD

In the early morning of 27 July 2023, Gulin County, Luzhou City, Sichuan Province encountered extremely heavy rainfall, which knocked down the wall of the Group’s wastewater treatment plant in Gulin County, causing damage to the wastewater treatment facilities and equipment. The direct property loss caused is estimated to be approximately RMB8 million.

Save as disclosed above and as of the date of this announcement, the Group did not have other significant events after the Reporting Period.

(XII) OTHER MATTERS

As of the date of this announcement, Ms. Huang Mei (黃梅), an executive Director of the Company, has resigned as an employee representative Director due to the change in work, with effect from 19 July 2023. Upon selection by the employee representative meeting of the Company convened on 19 July 2023, Mr. Xu Guanghua (徐光華) was appointed as employee representative Director of the Company to serve as an executive Director of the second session of the Board. For relevant biographies of Mr. Xu Guanghua, please refer to the Company’s announcement dated 19 July 2023.

Save as disclosed above, there has been no change in the information of the Directors, supervisors and chief executives of the Company from the Company’s publication of the 2022 annual report up to the date of this announcement.

III. OTHER INFORMATION

(I) INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2023 (for the six months ended 30 June 2022: 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.

During the Reporting Period, 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 the Company’s 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 Directors, 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 Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2023 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 2023 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 results of the Group for the six months ended 30 June 2023 have also been reviewed by the Audit Committee.

V. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.lzss.com. The interim report of the Group for the six months ended 30 June 2023 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
25 August 2023

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

* *For identification purposes only*