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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 2025**

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2025:

- Operating revenue amounted to approximately RMB615.4 million, representing a decrease of approximately 0.3% from the same period of last year.
- Net profit amounted to approximately RMB72.2 million, representing an increase of approximately 5.3% from the same period of last year.
- Net profit attributable to the owners of the parent company amounted to approximately RMB70.9 million, representing an increase of approximately 12.0% from the same period of last year.
- Basic earnings per share amounted to approximately RMB0.08, representing an increase of approximately 14.3% from the same period of last year.
- The Board did not recommend the distribution of any interim dividend for the six months ended 30 June 2025.

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 2025 (the “**Reporting Period**”) together with comparative figures for the corresponding period in 2024 as follows:

I. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION OF THE GROUP

1. CONSOLIDATED INCOME STATEMENT

Items	Six months ended 30 June	
	2025 <i>RMB’000</i> (unaudited)	2024 <i>RMB’000</i> (unaudited)
Total operating revenue	615,359	617,041
Of which: Operating revenue	615,359	617,041
Total operating cost	536,599	541,233
Of which: Operating cost	419,872	423,338
Taxes and surcharges	17,976	16,638
Cost of sales	9,817	10,666
Management expenses	44,743	47,067
Research and development expenses	—	—
Finance costs	44,192	43,524
Add: Other revenue	29,120	33,078
Investment income (represented by a sign of “—” for loss)	—	—
Credit impairment loss (represented by a sign of “—” for loss)	-13,408	-20,187
Asset impairment loss	—	—
Income from disposal of assets	2	—
Operating profit	94,473	88,699
Add: Non-operating revenue	1,512	1,281
Less: Non-operating expense	881	308
Total profit	95,103	89,672
Less: Income tax expense	22,860	21,075

Items	Six months ended 30 June	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net profit	72,244	68,597
(1) Classified by continuing operation	72,244	68,597
1. Net profit for continuing operation	72,244	68,597
(2) Classified by attribution of ownership	72,244	68,597
1. Net profit attributable to owners of the parent company	70,856	63,289
2. Minority profit and loss	1,387	5,309
Other comprehensive income, net after tax	—	—
Other comprehensive income attributable to the owners of the parent company, net after tax	—	—
(1) Other comprehensive income that cannot be reclassified into profit or loss	—	—
1. Changes in fair value of investments in other equity instruments	—	—
Total comprehensive income	72,244	68,597
Total comprehensive income attributable to the shareholders of the parent company	70,856	63,288
Total comprehensive income attributable to minority shareholders	1,387	5,309
Earnings per share		
(1) Basic earnings per share (RMB/share)	0.08	0.07
(2) Diluted earnings per share (RMB/share)	0.08	0.07

2. CONSOLIDATED BALANCE SHEET

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Current assets:		
Monetary funds	634,029	447,179
Bills receivable	—	—
Accounts receivable	726,968	697,661
Prepayments	24,709	32,636
Other receivables	63,372	71,979
Inventories	76,040	69,743
Contract assets	—	—
Other current assets	126,236	125,072
Total current assets	1,651,354	1,444,270
Non-current assets:		
Long-term receivables	—	—
Long-term debt investment	—	—
Investments in other equity instruments	56	56
Properties held for investment	1,775	1,832
Fixed assets	3,599,624	3,738,536
Construction in progress	286,369	235,077
Right-of-use assets	6	24
Intangible assets	1,500,287	1,512,274
Goodwill	28,139	28,139
Long-term deferred expenses	148,206	161,377
Deferred income tax assets	24,407	22,288
Other non-current assets	44,916	44,204
Total non-current assets	5,633,785	5,743,806
Total assets	7,285,140	7,188,076

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Current liabilities:		
Short-term borrowings	241,162	119,374
Accounts payable	390,015	430,247
Contract liabilities	190,428	173,440
Staff wages payable	49,651	56,790
Tax payable	12,660	14,337
Other payables	269,649	219,653
Of which: Interests payable	—	—
Dividends payable	34,388	—
Non-current liabilities due within one year	659,923	504,327
Other current liabilities	3,394	3,060
Total current liabilities	1,816,882	1,521,227
Non-current liabilities:		
Long-term borrowings	1,321,977	1,410,549
Bonds payables	—	—
Lease liabilities	—	—
Long-term payables	780,844	910,844
Long-term staff wages payable	—	—
Estimated liabilities	8,681	7,072
Deferred income	171,450	184,996
Deferred income tax liabilities	4,718	4,905
Total non-current liabilities	2,287,669	2,518,366
Total liabilities	4,104,551	4,039,593

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Shareholders' equity:		
Share capital	859,710	859,710
Capital reserve	420,447	420,447
Other comprehensive income (represented by a sign of “-” for net loss)	-67	-67
Special reserve	8,180	8,837
Surplus reserve	78,048	78,048
Undistributed profits	<u>1,598,855</u>	<u>1,562,387</u>
Total shareholders' equity attributable to the parent company	2,965,173	2,929,363
Minority shareholders' equity	<u>215,416</u>	<u>219,120</u>
Total shareholders' equity	<u>3,180,589</u>	<u>3,148,483</u>
Total liabilities and shareholders' equity	<u><u>7,285,140</u></u>	<u><u>7,188,076</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Group's financial statements have been prepared based on actual transactions and events in accordance with the "Accounting Standards for Business Enterprises" promulgated by the Ministry of Finance of the People's Republic of China (the "PRC") and the practice notes, interpretations and other relevant regulations (collectively "ASBE"), and disclosure-related requirements under the Hong Kong Companies Ordinance and the Listing Rules of The Stock Exchange of Hong Kong Limited.

The financial statements are prepared on a going concern basis. The Group has evaluated the going concern ability within 12 months since 30 June 2025 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 2025 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2024.

2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	Six months ended 30 June	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Type of services		
– Water supply business	188,648	188,391
– Wastewater treatment business	357,605	323,894
– Engineering business	66,908	95,447
– Others	2,197	9,309
	<hr/>	<hr/>
Revenue	615,359	617,041
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The above revenue of the Group is all derived from 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	
	2025	2024
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Segment revenue		
Tap water supply		
– From external customer		
– Water supply business	188,648	188,391
– Engineering business	66,908	95,447
Wastewater treatment		
– From external customers		
– Operating services	357,605	323,894
– Others	2,197	9,309
Revenue	615,359	617,041
Segment profits		
– Tap water supply	-30,525	-30,572
– Wastewater treatment	103,786	103,049
– Others	-1,017	-3,880
Net profit	72,244	68,597

* *Inter-segment sales for the six months ended 30 June 2024 and 2025 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 2025 RMB'000 (unaudited)	As at December 2024 RMB'000 (audited)
Segment assets		
– Tap water supply	4,499,428	4,515,975
– Wastewater treatment	3,511,415	3,310,196
– Others	15,518	16,661
Elimination	<u>-765,628</u>	<u>-677,043</u>
Consolidated total assets	<u><u>7,260,733</u></u>	<u><u>7,165,789</u></u>
Segment liabilities		
– Tap water supply	2,352,408	2,346,191
– Wastewater treatment	1,835,919	1,687,320
– Others	2,888	3,974
Elimination	<u>-91,382</u>	<u>-2,798</u>
Consolidated total assets	<u><u>4,099,833</u></u>	<u><u>4,034,688</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 2025 RMB'000 (unaudited)	2024 RMB'000 (unaudited)
Interest expenses	45,990	49,525
Less: Interest incomes	1,872	6,127
Add: Exchange loss	20	-6
Add: Interest expenses on lease liability	0	0
Add: Other expenses	<u>55</u>	<u>132</u>
Total	<u><u>44,192</u></u>	<u><u>43,524</u></u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current income tax expense	25,167	24,401
Deferred income tax expense	-2,307	-3,326
	<u>22,860</u>	<u>21,075</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 2025 and 2024 is as follows:

Applicable EIT rate

Name of taxpayer	Six months ended 30 June	
	2025	2024
Luzhou Xinglu Water (Group) Co., Ltd.* (“ Water Headquarters ”)	15%	15%
Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch (“ Lu County Branch ”)	15%	15%
Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd. (“ Hejiang Water ”)	15%	15%
Luzhou Nanjiao Water Co., Ltd. (“ Nanjiao Water ”)	see note c	15%
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. (“ Beijiao Water ”)	15%	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. (“ Sitong Engineering ”)	15%	15%
Luzhou Xinglu Wastewater Treatment Co., Ltd. (“ Xinglu Wastewater ”)	15%	15%
Luzhou Xinghe Water Governance Co., Ltd. (“ Xinghe Water Governance ”)	15%	15%
Xinglu Water Weiyuan Qingxi Water Co., Ltd. (“ Weiyuan Water ”)	15%	15%
Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd. (“ Weiyuan Installation ”)	see note c	15%
Luzhou Fanxing Environmental Development Co., Ltd. (“ Fanxing Environmental ”)	15%	see note a, b, c
Dechang Xinglu Water Co., Ltd. (“ Dechang Water ”)	15%	15%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. (“ Qingbaijiang Water ”)	see notes a, b, c	see notes a, b, c

Name of taxpayer	Six months ended 30 June	
	2025	2024
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. (“ Xingjia Environmental ”)	See note c	See note c
Leibo Xinglu Water Co., Ltd. (“ Leibo Water ”)	See note c	15%
Luzhou Xinglu Zhihui Water Science and Technology Co., Ltd. (“ Zhihui Technology ”)	See note c	See note c
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. (“ Sitong Design ”)	See note c	See note c
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“ Xingxu Water ”)	See note c	See note c
Xuyong Yongxing Water Governance Co., Ltd. (“ Yongxing Water Governance ”)	See note c	See note c
Luzhou Xinggang Environmental Protection Technology Co., Ltd. (“ Xinggang Environmental ”)	See note c	See note c
Leshan Jingyan Xinglu Wastewater Treatment Co., Ltd. (“ Jingyan Wastewater ”)	15%	See note c
Luzhou Xinglu Water Quality Testing Co., Ltd. (“ Water Quality Testing ”)	See note c	See note c

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 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	50% tax reduction period
Qingbaijiang Water	2023-2025

- c. According to the Notice of the Ministry of Finance and the State Taxation Administration on the Preferential Income Tax Policies for Micro and Small Enterprises and Individual Business (Cai Shui [2023] No. 12), the policy that small and low-profit enterprises shall pay the taxable income at a reduced rate of 25% and the enterprise income tax shall be paid at the tax rate of 20% will continue to be implemented until 31 December 2027.
- d. According to the Notice on the Issuance of the Catalog of Value-added Tax Benefits for Products and Services for Comprehensive Utilization of Resources (Cai Shui [2021] No. 40) of the Ministry of Finance and the State Administration of Taxation, with effective from 1 March 2022, the Taxpayers who engage in the sale of self-produced products for comprehensive utilization of resources and provision of services for comprehensive utilization of resources are entitled to the policy of instant refund of value-added tax. Xinglu Treatment which has provided services for sewage treatment since 1 March 2022 are entitled to the policy of instant refund of value-added tax with a tax refund rate of 70%.

- e. According to, the Announcement of the Ministry of Finance and the State Administration of Taxation on the Continued Implementation of Preferential Tax Policies for Rural Drinking Water Safety Projects (MOF and SAT Announcement 2019 No. 67) and the Announcement of the Ministry of Finance and the State Administration of Taxation on the Extension of the Implementation Period of Certain Preferential Tax Policies (MOF and SAT Announcement 2021 No. 6), the revenue from the sale of tap water earned by the operation and management units responsible for drinking water projects in respect of the provision of domestic water to rural residents is exempt from value-added tax.

6. DIVIDEND

During the Reporting Period, a final dividend of RMB34,388,400 or RMB0.04 per share (tax inclusive) in respect of the year ended 31 December 2024 was declared to the shareholders of the Company.

The directors of the Company resolved not to distribute an interim dividend for the six months ended 30 June 2025 (for the six months ended 30 June 2024: (unaudited) Nil).

7. EARNINGS PER SHARE

Earnings per share is based on the following data:

	Six months ended 30 June	
	2025	2024
Net profit attributable to shareholders of the parent (<i>RMB'000</i>)	70,856	63,289
Weighted average number of ordinary shares issued (<i>'000</i>)	859,710	859,710
Earnings per share (<i>RMB</i>)	0.08	0.07

No diluted earnings per share was presented for the six months ended 30 June 2025 and 2024 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

8. ACCOUNTS RECEIVABLE

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Accounts receivable	849,286	804,734
Less: Allowance for credit losses	122,318	107,073
	<hr/>	<hr/>
Total accounts receivable	726,968	697,661
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The following is the aging analysis of accounts receivable, presented based on the respective revenue recognition dates:

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Within 1 year (inclusive)	524,527	510,431
1 to 2 years	150,091	142,401
2 to 3 years	76,287	65,025
3 to 4 years	51,121	58,037
4 to 5 years	39,142	21,925
Over 5 years	8,120	6,916
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Total	849,286	804,734
	<hr/> <hr/>	<hr/> <hr/>

9. ACCOUNTS PAYABLE

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

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
Within 1 year (inclusive)	46,524	257,575
1 to 2 years	197,398	38,584
2 to 3 years	27,217	35,677
3 to 4 years	23,348	62,199
4 to 5 years	59,416	234
Over 5 years	36,112	35,977
Total	<u>390,015</u>	<u>430,247</u>

10. SHARE CAPITAL

	As at 30 June 2025 <i>RMB'000</i> (unaudited)	As at 31 December 2024 <i>RMB'000</i> (audited)
At the end of the period	<u>859,710</u>	<u>859,710</u>
	<i>'000 shares</i>	<i>'000 shares</i>
Shares of RMB1 each		
– Domestic shares (<i>Note</i>)	644,770	644,770
– H shares	<u>214,940</u>	<u>214,940</u>
Total	<u>859,710</u>	<u>859,710</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

In the first half of 2025, due to the abolition of the centralized water supply pipeline network construction cost-sharing fee and the lack of a clear mechanism for bearing related costs, urban water supply business revenue and profits showed a fluctuating decline. Many regions launched cost-cutting and efficiency-enhancing measures, such as controlling water pipeline network leakage rates and popularizing intelligent monitoring equipment, and promoted adjustments to water price and water fee pricing mechanisms to create space for the sustainable operation and development of water supply companies.

In the first half of 2025, with the widespread application of big data and artificial intelligence (AI), biotechnology and new materials, many environmental protection companies will change their names to promote their main business and strategic adjustments, and transform into smart and resource-oriented companies. Traditional water supply and drainage businesses will accelerate their integration with synthetic manufacturing, energy conservation and carbon reduction, and resource recycling.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

As the water industry undergoes rapid market transformation, Xinglu Water will leverage its industry position in the second half of 2025 to remain focused on its core responsibilities and business, adhering to a development strategy of “pursuing progress while ensuring stability”. The Company will refine internal controls to promote cost reduction and efficiency improvements, continue to explore the integration of water supply and drainage in townships, and expand its industrial wastewater treatment value chain to promote business diversification and achieve steady, 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, the PRC, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 8 city wastewater treatment plants, 2 industrial park wastewater treatment plants and 5 entrusted operation wastewater treatment plants, and we also operated several wastewater treatment facilities in townships and rural areas. Our total treatment capacity is approximately 1,440,300 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 2024. The average utilization rate of tap water plants is 69.04%.

During the Reporting Period, our total water sales volume were approximately 79.88 million tons, representing an increase of 0.4% from our sales of tap water of approximately 79.56 million tons for the six months ended 30 June 2024. The increase was mainly due to the increase of users.

Wastewater Treatment Projects

As at the end of the Reporting Period, the Group owned 8 operating city wastewater treatment plants (excluding emergency back-up wastewater treatment plants), with a daily treatment capacity of approximately 533,000 tons in aggregate, and the average load rate of wastewater treatment plants stood at 72.75%; 2 industrial park wastewater treatment plants with a daily treatment capacity of approximately 30,000 tons in aggregate; and 5 entrusted operation wastewater treatment plants, with an additional 1 plant added compared to the end of 2024, and a daily treatment capacity of approximately 27,900 tons in aggregate; a total of 295 wastewater treatment facilities in the townships and rural areas with an additional 3 facilities added compared to the end of 2024, and a daily treatment capacity of approximately 75,400 tons.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 83.5 million tons, representing an increase of 2.58% as compared with approximately 81.4 million tons of the total actual processing volume for the six months ended 30 June 2024. The increase is mainly due to the increase in water supply from the pipeline network.

(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 RMB615.4 million, representing a decrease of 0.3% from RMB617.0 million for the same period of 2024. 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 RMB188.6 million, representing an increase of 0.1% from RMB188.4 million for the same period of 2024. The increase was mainly due to the increase in sales volume of tap water. Revenue generated from sales of tap water accounted for 30.5% and 30.7% of our total revenue for the six months ended 30 June 2024 and 2025, respectively.

1.1.1.2 Engineering installation

Revenue of the Group generated from installation services amounted to RMB66.9 million, representing a decrease of 29.9% from RMB95.4 million for the same period of 2024. The decrease was mainly due to engineering installation revenue declined due to the impact of the real estate market during the Reporting Period, resulting in an overall decrease in revenue. Revenue generated from installation services accounted for 15.5% and 10.9% of our total revenue for the six months ended 30 June 2024 and 2025, respectively.

1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group from operating services of wastewater treatment amounted to RMB357.6 million, representing an increase of 10.4% from RMB323.9 million for the same period of 2024. The increase was mainly due to the start of operations at the Chengdong Phase II, which led to an increase in the charged treatment volume of wastewater. Revenue generated from wastewater treatment operation accounted for 52.5% and 58.1% of our total revenue for the six months ended 30 June 2024 and 2025, respectively.

1.2 Operating cost

During the Reporting Period, the Group's operating cost amounted to RMB419.9 million, decreased by 0.8% from RMB423.3 million for the same period of 2024. The decrease was mainly due to engineering installation revenue decreased during the Reporting Period due to the impact of the real estate market, resulting in a decrease in engineering installation costs.

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 sales amounted to RMB183.5 million, representing a decrease of 3.8% from RMB190.8 million for the same period of 2024. The decrease was mainly due to the depreciation period for some assets expired during the Reporting Period, resulting in a decrease in depreciation expenses. Operating cost associated with tap water sales accounted for 45.1% and 43.7% of our total operating cost for the six months ended 30 June 2024 and 2025, respectively.

1.2.1.2 Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB29.0 million, representing a decrease of 27.1% from RMB39.8 million for the same period of 2024. 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 9.4% and 6.9% of the total operating cost for the six months ended 30 June 2024 and 2025, respectively.

1.2.2 Wastewater Treatment

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB206.3 million, representing an increase of 10.7% from RMB186.3 million for the same period of 2024. The increase was mainly due to the depreciation and interest expenses of the Chengdong Phase II are no longer capitalized after the formal operation of the Chengdong Phase II, while production and operating costs have increased. Operating cost from wastewater treatment operating services accounted for 44.0% and 49.1% of the total operating cost for the six months ended 30 June 2024 and 2025, respectively.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit amounted to RMB195.5 million during the Reporting Period, representing an increase of 0.9% from RMB193.7 million for the same period of 2024. Gross profit margin increased from 31.4% for the same period of 2024 to 31.8% during the Reporting Period which was mainly due to the impact of increased gross profit margin from water sales 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 RMB5.1 million, representing an increase of 311.0% from RMB-2.4 million for the same period of 2024. Its corresponding gross profit margin increased from -1.3% for same period of 2024 to 2.7% for the Reporting Period. The increase was mainly due to the combined effects of increased water sales volume and reduced depreciation costs.

1.3.1.2 Engineering installation

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB37.9 million, representing a decrease of 31.9% from RMB55.6 million for the same period of 2024. Its corresponding gross profit margin decreased from 58.3% for the same period of 2024 to 56.6% for the Reporting Period. The decrease was mainly due to the adjustment of the centralized pipeline charging policy, which will no longer charge centralized pipeline construction fees starting from 2025.

1.3.2 Wastewater treatment

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB151.3 million, increased by 10.0% from RMB137.6 million for the same period of 2024. The corresponding gross profit margin decreased from 42.5% for the same period of 2024 to 42.3% during the Reporting Period. The increase was mainly due to an increase in depreciation of fixed assets at the Chengdong Wastewater Treatment Plant Phase II during the Reporting Period.

1.4 Other revenue

During the Reporting Period, the Group's other revenue amounted to RMB29.1 million, representing a decrease of 12.0% from RMB33.1 million for the same period of 2024. The decrease was mainly due to the receipt of subsidy for 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 RMB9.8 million, representing a decrease of 8.0% from RMB10.7 million for the same period of 2024. The decrease was mainly due to a year-on-year decrease in employee remunerations and labor protection fees.

1.6 Management expenses

During the Reporting Period, the Group's management expenses amounted to RMB44.7 million, representing a decrease of 4.9% from RMB47.1 million for the same period of 2024. The decrease was mainly due to the year-on-year reductions in labor costs and three public expenses.

1.7 Finance costs

During the Reporting Period, the Group's finance costs amounted to RMB44.2 million, representing an increase of 1.5% from RMB43.5 million for the same period of 2024. The increase was mainly due to the impact of the increase in interest expenses after the conversion of the Chengdong Wastewater Treatment Plant Phase II.

1.8 Income tax expense

During the Reporting Period, the Group's income tax expenses amounted to RMB22.9 million, representing an increase of 8.5% from RMB21.1 million for the same period of 2024. The increase was mainly due to the impact of the increase in total profit during the Reporting Period. For the six months ended 30 June 2024 and 2025, the effective tax rates of the Group were 23.5% and 24.0%, 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 RMB72.2 million, representing an increase of 5.3% from RMB68.6 million for the same period in 2024. Net profit margin increased from 11.1% for the six months ended 30 June 2024 to 11.7% for the Reporting Period.

2. Analysis of Key Items in the Balance Sheet

2.1 Accounts receivable

Accounts receivable of the Group were RMB697.7 million and RMB727.0 million as of 31 December 2024 and as at the end of the Reporting Period, respectively. The increase was mainly due to 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	
	2025	2024
Average turnover days of accounts receivable ⁽¹⁾	<u>208</u>	<u>162</u>

Note:

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

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 RMB69.7 million and RMB76.0 million as of 31 December 2024 and as at the end of the Reporting Period, respectively. The increase was mainly due to the increase in contract performance costs.

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

	Six months ended 30 June	
	2025	2024
Average turnover days of inventories receivable ⁽²⁾	<u>31</u>	<u>32</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 2024 and as at the end of the Reporting Period, the Group's other receivables were RMB72.0 million and RMB63.4 million, respectively. The decrease was mainly due to the recovery of funds for the renovation of project payments of household meters in the main urban area.

2.4 Fixed assets

As of 31 December 2024 and as at the end of the Reporting Period, the Group's fixed assets were RMB3,738.5 million and RMB3,599.6 million, respectively. The decrease was mainly due to depreciation charges.

2.5 Construction in progress

As of 31 December 2024 and as at the end of the Reporting Period, the balance of construction in progress of the Group were RMB235.1 million and RMB286.4 million, respectively. The increase was mainly due to the construction of new wastewater treatment facilities and tap water pipelines network.

2.6 Intangible assets

As of 31 December 2024 and as at the end of the Reporting Period, the Group's intangible assets were RMB1,512.3 million and RMB1,500.3 million, respectively. The decrease was mainly due to normal amortization.

2.7 Long-term deferred expenses

As of 31 December 2024 and as at the end of the Reporting Period, the Group's long-term deferred expenses were RMB161.4 million and RMB148.2 million, respectively. The decrease was mainly due to normal amortization.

2.8 Short-term borrowings

As of 31 December 2024 and as at the end of the Reporting Period, the Group's short-term borrowings were RMB119.4 million and RMB241.2 million, respectively. The increase was mainly due to new borrowings.

2.9 Accounts payable

As of 31 December 2024 and as at the end of the Reporting Period, the Group's accounts payable were RMB430.2 million and RMB390.0 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	
	2025	2024
Average turnover days of accounts payable ⁽³⁾	<u>176</u>	<u>148</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 2024 and as at the end of the Reporting Period, the Group's contract liabilities were RMB173.4 million and RMB190.4 million, respectively. The increase was mainly due to an increase in advance payments for water supply services.

2.11 Other payables

As of 31 December 2024 and as at the end of the Reporting Period, the Group's other payables were RMB219.7 million and RMB269.6 million, respectively. The increase was mainly due to the increase in fees collected and paid on behalf of others, such as wastewater treatment fees.

2.12 Non-current liabilities due within one year

As of 31 December 2024 and as at the end of the Reporting Period, the Group's non-current liabilities due within one year were RMB504.3 million and RMB659.9 million, respectively. The increase was mainly due to the increase in long-term borrowings and long-term payables maturing within one year.

2.13 Long-term borrowings

As of 31 December 2024 and as at the end of the Reporting Period, the Group's long-term borrowings were RMB1,410.5 million and RMB1,322.0 million, respectively. The decrease was mainly due to the impact of the reclassification of long-term borrowings.

2.14 Long-term payables

As of 31 December 2024 and as at the end of the Reporting Period, the Group's long-term payables were RMB910.8 million and RMB780.8 million, respectively. The decrease was mainly due to the impact of the reclassification of long-term borrowings.

2.15 Deferred income

As of 31 December 2024 and as at the end of the Reporting Period, the Group's deferred income were RMB185.0 million and RMB171.4 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 RMB634.0 million (at the end of 2024: RMB447.2 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,967.19 million (at the end of 2024: RMB2,923.3 million), including bank and other borrowings. Approximately 56.81% of bank and other borrowings bear interest at floating rates, short-term borrowings and non-current liabilities due within one year amounted to approximately RMB865.23 million, all of which were domestic RMB borrowings. The amount of fixed-rate borrowings was RMB1,281.58 million.

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 108.4% (at the end of 2024: 106.9%).

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 855 employees (at the end of 2024: 876 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB75.0 million (for the six months ended 30 June 2024: RMB74.9 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 collection rights for certain wastewater treatment projects, the operating concession rights of the Jingyan No. 2 Sewage Treatment Plant, 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 loss of approximately RMB20,088.18 in the Reporting Period). The Group does not currently hedge its exposure to foreign currencies.

(IX) CONTINGENT LIABILITIES

During the Reporting Period, the Company had no material contingent liabilities.

(X) SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the Group did not hold any significant investments. As at the end of the Reporting Period, we do not have any future plans for material investments or capital assets.

(XI) EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there are no other significant events after the Reporting Period and up to the date of this announcement for the Group.

III. OTHER INFORMATION

(I) INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2025 (for the six months ended 30 June 2024: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares (as defined in the Listing Rules)) during the Reporting Period. As at the end of the Reporting Period, there were no treasury shares held by 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 C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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. The Board will review from time to time the corporate governance practices and operations of the Company to verify compliance with the relevant provisions of the Listing Rules.

(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 C3 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 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 2025 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 information of the Group for the six months ended 30 June 2025 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 2025 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 2025 will be dispatched to the shareholders of the Company if so requested and released on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Luzhou Xinglu Water (Group) Co., Ltd.*
Zhang Qi
Chairman

Luzhou, the PRC
29 August 2025

As at the date of this announcement, the Board comprises of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Chen Qinan and Mr. Xu Guanghua; (ii) three non-executive Directors, namely Mr. Xu Fei, Ms. Zhang Guanghui 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*