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 2026

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2026:

- Operating revenue amounted to approximately RMB575.4 million, representing a decrease of approximately 6.5% from the same period of last year.
- Net profit amounted to approximately RMB70.8 million, representing a decrease of approximately 1.9% from the same period of last year.
- Net profit attributable to the owners of the parent company amounted to approximately RMB64.9 million, representing a decrease of approximately 8.4% 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 2026 (for the six months ended 30 June 2025: Nil).

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 2026 (the "**Reporting Period**") together with comparative figures for the corresponding period in 2025 as follows:

I. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION OF THE GROUP

1. CONSOLIDATED INCOME STATEMENT

Items	Six months ended 30 June	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Total operating revenue	**575,392**	615,359
Of which: Operating revenue	**575,392**	615,359
Total operating cost	**496,756**	536,599
Of which: Operating cost	**378,307**	419,872
Taxes and surcharges	**17,389**	17,976
Selling expenses	**9,254**	9,817
Management expenses	**50,768**	44,743
Research and development expenses	**1,885**	–
Finance costs	**39,153**	44,192
Add: Other revenue	**30,071**	29,120
Investment income (represented by a sign of "–" for loss)	**–**	–
Credit impairment loss (represented by a sign of "–" for loss)	**-19,840**	-13,408
Asset impairment loss	**–**	–
Income from disposal of assets	**-4**	2
Operating profit	**88,864**	94,473
Add: Non-operating revenue	**1,297**	1,512
Less: Non-operating expense	**341**	881
Total profit	**89,820**	95,103
Less: Income tax expense	**18,977**	22,860

Items	Six months ended 30 June	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net profit	**70,843**	72,244
(1) Classified by continuing operation	**70,843**	72,244
1. Net profit for continuing operation	**70,843**	72,244
(2) Classified by attribution of ownership	**70,843**	72,244
1. Net profit attributable to owners of the parent company	**64,939**	70,856
2. Minority profit and loss	**5,904**	1,387
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 to profit or loss	**–**	–
1. Changes in fair value of investments in other equity instruments	**–**	–
Total comprehensive income	**70,843**	72,244
Total comprehensive income attributable to the shareholders of the parent company	**64,939**	70,856
Total comprehensive income attributable to minority shareholders	**5,904**	1,387
Earnings per share		
(1) Basic earnings per share (RMB/share)	**0.08**	0.08
(2) Diluted earnings per share (RMB/share)	**0.08**	0.08

2. CONSOLIDATED BALANCE SHEET

	As at 30 June 2026 *RMB'000* **(unaudited)**	As at 31 December 2025 *RMB'000* (audited)
Current assets:		
Monetary funds	**449,083**	605,986
Bills receivable	–	–
Accounts receivable	**812,412**	752,333
Prepayments	**16,092**	37,271
Other receivables	**35,054**	43,068
Inventories	**75,629**	72,590
Contract assets	–	–
Other current assets	**107,747**	112,614
Total current assets	**1,496,017**	1,623,862
Non-current assets:		
Long-term receivables	–	–
Long-term equity investment	–	–
Investments in other equity instruments	**80**	80
Properties held for investment	**1,663**	1,719
Fixed assets	**3,532,312**	3,714,018
Construction in progress	**131,932**	69,885
Right-of-use assets	**88**	108
Intangible assets	**1,515,329**	1,542,988
Goodwill	**28,139**	28,139
Long-term deferred expenses	**135,946**	149,591
Deferred income tax assets	**32,174**	29,058
Other non-current assets	**50,234**	42,495
Total non-current assets	**5,427,899**	5,578,081
Total assets	**6,923,916**	7,201,944

	As at 30 June 2026 *RMB'000* (unaudited)	As at 31 December 2025 *RMB'000* (audited)
Current liabilities:		
Short-term borrowings	**527,306**	483,255
Accounts payable	**261,856**	387,065
Contract liabilities	**208,345**	196,268
Staff wages payable	**45,931**	53,642
Tax payable	**31,248**	24,396
Other payables	**273,304**	215,242
Of which: Interests payable	**–**	–
Dividends payable	**34,388**	–
Non-current liabilities due within one year	**485,448**	407,078
Other current liabilities	**3,983**	3,554
Total current liabilities	**1,837,422**	1,770,501
Non-current liabilities:		
Long-term borrowings	**905,530**	1,266,466
Bonds payables	**–**	–
Lease liabilities	**40**	39
Long-term payables	**780,844**	780,844
Estimated liabilities	**9,234**	7,826
Deferred income	**146,757**	157,993
Deferred income tax liabilities	**4,340**	4,529
Total non-current liabilities	**1,846,746**	2,217,697
Total liabilities	**3,684,168**	3,988,198

	As at 30 June 2026 RMB'000 (unaudited)	As at 31 December 2025 RMB'000 (audited)
Shareholders' equity:		
Share capital	**859,710**	859,710
Capital reserve	**420,447**	420,447
Other comprehensive income	**-42**	-42
Special reserve	**5,938**	7,141
Surplus reserve	**78,048**	78,048
Undistributed profits	**1,667,742**	1,637,192
Total shareholders' equity attributable to the parent company	**3,031,843**	3,002,496
Minority shareholders' equity	**207,905**	211,250
Total shareholders' equity	**3,239,748**	3,213,746
Total liabilities and shareholders' equity	**6,923,916**	7,201,944

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 6 months since 30 June 2026 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.

Except for the changes in accounting policies described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2026 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2025.

In December 2025, the Ministry of Finance issued "Interpretation No. 19", which further standardizes and clarifies matters including "the accounting treatment of compensatory assets in business combinations not under common control", "the accounting treatment of the relevant capital reserve upon disposal of a subsidiary originally acquired through a business combination under common control", "the derecognition of financial liabilities settled through electronic payment systems", "the assessment and related disclosures of contractual cash flow characteristics of financial assets", and "the disclosures of equity instruments designated as at fair value through other comprehensive income". This Interpretation became effective on 1 January 2026.

In June 2026, the Ministry of Finance issued "Interpretation No. 20", which further standardizes and clarifies matters including "the assessment of contractual cash flow characteristics of financial assets" and "the accounting treatment and related disclosures when a currency lacks exchangeability". This Interpretation became effective from the date of promulgation. For transactions newly arising between 1 January 2026 and the effective date of this Interpretation that fall within the scope of this Interpretation, enterprises shall make adjustments in accordance with this Interpretation.

This change in accounting policies did not have any impact on the financial statements of the Group.

2. REVENUE

Disaggregation of revenue generated from contracts with customers:

	Six months ended 30 June	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Type of services		
– Water supply business	**177,238**	188,648
– Wastewater treatment business	**351,466**	357,605
– Engineering business	**38,456**	66,908
– Others	**8,232**	2,197
Revenue	**575,392**	615,359

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	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customer		
– Water supply business	**177,238**	188,648
– Engineering business	**38,456**	66,908
Wastewater treatment		
– From external customers		
– Operating services	**351,466**	357,605
– Others	**8,232**	2,197
Revenue	**575,392**	615,359
Segment profits		
– Tap water supply	**-41,987**	-30,525
– Wastewater treatment	**114,099**	103,786
– Others	**-1,269**	-1,017
Net profit	**70,843**	72,244

* *Inter-segment sales for the six months ended 30 June 2025 and 2026 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 2026 RMB'000 ***(unaudited)***	**As at 31 December 2025** RMB'000 *(audited)*
Segment assets		
– Tap water supply	**4,276,877**	4,363,763
– Wastewater treatment	**3,272,707**	3,470,830
– Others	**13,654**	14,670
Elimination	**-671,495**	-676,379
Consolidated total assets	**6,891,742**	7,172,885
Segment liabilities		
– Tap water supply	**2,196,892**	2,263,610
– Wastewater treatment	**1,479,360**	1,720,153
– Others	**3,576**	3,039
Elimination	**0**	-3,133
Consolidated total liabilities	**3,679,828**	3,983,669

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	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses	**39,814**	45,990
Less: Interest incomes	**829**	1,872
Add: Exchange loss	**49**	20
Add: Interest expenses on lease liability	**1**	0
Add: Other expenses	**118**	55
Total	**39,153**	44,192

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2026	2025
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current income tax expense	**22,281**	25,167
Deferred income tax expense	**-3,304**	-2,307
	18,977	22,860

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 2026 and 2025 is as follows:

	Six months ended 30 June	
Name of taxpayer	**2026**	2025
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 ③**	see note ③
Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd. ("**Beijiao Water**")	**15%**	15%
Luzhou Sitong Tap Water Engineering Co., Ltd. ("**Sitong Engineering**")	**see note ③**	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%
Luzhou Fanxing Environmental Development Co., Ltd. ("**Fanxing Environmental**")	**15%**	15%
Dechang Xinglu Water Co., Ltd. ("**Dechang Water**")	**15%**	15%
Chengdu Qingbaijiang Xinglu Water Co., Ltd. ("**Qingbaijiang Water**")	**15%**	see note ①②③
Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd. ("**Xingjia Environmental**")	**see note ③**	see note ③
Leibo Xinglu Water Co., Ltd. ("**Leibo Water**")	**15%**	see note ③
Luzhou Xinglu Zhihui Water Science and Technology Co., Ltd. ("**Zhihui Technology**")	**see note ③**	see note ③
Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd. ("**Sitong Design**")	**see note ③**	see note ③
Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. ("**Xingxu Water**")	**see note ③**	see note ③
Xuyong Yongxing Water Governance Co., Ltd. ("**Yongxing Water Governance**")	**see note ③**	see note ③
Luzhou Xinggang Environmental Protection Technology Co., Ltd. ("**Xinggang Environmental**")	**15%**	see note ③
Leshan Jingyan Xinglu Wastewater Treatment Co., Ltd. ("**Jingyan Wastewater**")	**15%**	15%
Luzhou Xinglu Water Quality Testing Co., Ltd. ("**Water Quality Testing**")	**see note ③**	see note ③

Notes:

(1) Enterprise Income Tax Preference

① 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, Beijiao Water, Xinglu Wastewater, Xinghe Water Governance, Weiyuan Water, 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.

② 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.

③ 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.

(2) Value-added Tax

① 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 Wastewater 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%.

② 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 2025 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 2026 (for the six months ended 30 June 2025: (unaudited) Nil).

7. EARNINGS PER SHARE

Earnings per share is based on the following data:

	Six months ended 30 June	
	2026	2025
Net profit attributable to shareholders of the parent *(RMB'000)*	**64,939**	70,856
Weighted average number of ordinary shares issued *('000)*	**859,710**	859,710
Earnings per share *(RMB)*	**0.08**	0.08

No diluted earnings per share were presented for the six months ended 30 June 2026 and 2025 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

8. ACCOUNTS RECEIVABLE

	As at 30 June 2026 *RMB'000* **(unaudited)**	As at 31 December 2025 *RMB'000* (audited)
Accounts receivable	**976,102**	904,326
Less: Allowance for credit losses	**163,690**	151,992
Total accounts receivable	**812,412**	752,333

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

	As at 30 June 2026 *RMB'000* **(unaudited)**	As at 31 December 2025 *RMB'000* (audited)
Within 1 year (inclusive)	**465,172**	466,098
1 to 2 years	**291,662**	241,273
2 to 3 years	**82,977**	67,797
3 to 4 years	**65,412**	57,599
4 to 5 years	**44,576**	46,788
Over 5 years	**26,303**	24,771
Total	**976,102**	904,326

9. ACCOUNTS PAYABLE

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

	As at 30 June 2026 ***RMB'000*** **(unaudited)**	As at 31 December 2025 *RMB'000* (audited)
Within 1 year (inclusive)	**65,022**	192,832
1 to 2 years	**76,300**	68,049
2 to 3 years	**20,002**	26,247
3 to 4 years	**11,027**	22,125
4 to 5 years	**14,345**	43,779
Over 5 years	**75,160**	34,034
Total	**261,856**	387,065

10. SHARE CAPITAL

	As at 30 June 2026 ***RMB'000*** **(unaudited)**	As at 31 December 2025 *RMB'000* (audited)
At the end of the period	**859,710**	859,710
	'000 shares	*'000 shares*
Shares of RMB1 each		
– Domestic shares *(Note)*	**644,770**	644,770
– H shares	**214,940**	214,940
Total	**859,710**	859,710

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY OVERVIEW

In the first half of 2026, the Regulation on Water Supply came into effect. Coupled with the continuous advancement of national strategies such as the construction of the national water network, urban renewal and the integration of urban and rural water supply and drainage systems, refined project management and professional operation have become the prevailing trend for the sustainable development of the industry.

At present, the overall operation of China's water industry remains stable. However, traditional water supply and wastewater treatment businesses will continue to face operational challenges for a period of time in the future, while competition in segments such as direct drinking water, industrial wastewater treatment and smart water has intensified significantly. Water and environmental protection enterprises are adjusting their development strategies through measures such as extending their industry chains and shifting to new business sectors, thereby promoting their long-term sustainable development.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

As 2026 marks the inaugural year of the 15th Five-Year Plan, the Company will continue to focus on its principal businesses and uphold its development strategy of seeking progress while ensuring stability. Adhering to its development strategy of in-depth local operations and external expansion, and placing equal emphasis on both horizontal and vertical development by focusing on the principal water supply and drainage business and extending the upstream and downstream industry chain, the Company will take reducing costs and increasing efficiency as its main operational focus to ensure its steady and sustainable development.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, the PRC, principally engaged in two major business segments: tap water supply and wastewater treatment. The business primarily adopts build-own-operate ("**BOO**") and transfer-own-operate ("**TOO**") project models, pursuant to which we enter into concession agreements with local governments typically for a term of 30 years. The Company conducts business in the regions of Luzhou, Weiyuan in Neijiang City, Jingyan in Leshan City, Qingbaijiang in Chengdu City, as well as Leibo and Dechang in Liangshan Prefecture, the PRC.

As at the end of the Reporting Period, we operated 12 tap water plants, 8 city wastewater treatment plants, 3 industrial park wastewater treatment plants and 4 entrusted-operation wastewater treatment plants, and we also operated several wastewater treatment facilities in townships and rural areas. Our total treatment capacity is approximately 1.442 million tons per day.

Tap Water Projects

As at the end of the Reporting Period, the Group owned 12 tap water plants with an aggregate daily water supply capacity of approximately 784,000 tons (excluding emergency back-up water plants), which remained unchanged as compared with the end of 2025. The average utilization rate of the tap water plants was 67.0%.

During the Reporting Period, our total water sales amounted to approximately 79.64 million tons, representing a decrease of 0.3% from our sales of tap water of approximately 79.88 million tons for the six months ended 30 June 2025. The decrease was mainly due to the decline in non-residential, temporary and special-purpose water consumption.

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 78.9%; 3 industrial park wastewater treatment plants with a daily treatment capacity of approximately 33,000 tons in aggregate; and 4 entrusted operation wastewater treatment plants with a daily treatment capacity of approximately 33,100 tons in aggregate; a total of 224 wastewater treatment facilities in the townships and rural areas with a daily treatment capacity of approximately 58,900 tons, which remained unchanged as compared with the end of 2025.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 89.4 million tons, representing an increase of 7.1% as compared with approximately 83.5 million tons of the total actual treatment volume for the six months ended 30 June 2025. The increase was mainly due to the increase in water inflow 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 RMB575.4 million, representing a decrease of 6.5% from RMB615.4 million for the same period of 2025. The decrease was mainly due to a decrease in revenue generated from engineering installation, as well as the cessation of charging secondary water supply service fees for tap water.

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 RMB177.2 million, representing a decrease of 6.0% from RMB188.6 million for the same period of 2025. The decrease was mainly due to the cessation of charging secondary water supply service fees in accordance with the relevant policy. Revenue generated from sales of tap water accounted for 30.7% and 30.8% of our total revenue for the six months ended 30 June 2025 and 2026, respectively.

1.1.1.2 Engineering installation

During the Reporting Period, revenue of the Group generated from installation services amounted to RMB38.5 million, representing a decrease of 42.5% from RMB66.9 million for the same period of 2025. The decrease was mainly due to the downturn in the property market and the decline in installation projects for newly built residential units. Revenue generated from installation services accounted for 10.9% and 6.7% of our total revenue for the six months ended 30 June 2025 and 2026, respectively.

1.1.2 Wastewater treatment

During the Reporting Period, revenue of the Group from operating services of wastewater treatment amounted to RMB351.5 million, representing a decrease of 1.7% from RMB357.6 million for the same period of 2025. The decrease was mainly due to a year-on-year decline in the chargeable treatment volume of shale gas industrial wastewater. Revenue generated from wastewater treatment operation accounted for 58.1% and 61.1% of our total revenue for the six months ended 30 June 2025 and 2026, respectively.

1.2 Operating cost

During the Reporting Period, the Group's operating cost amounted to RMB378.3 million, representing a decrease of 9.9% from RMB419.9 million for the same period of 2025. The decrease was mainly due to the decline in engineering installation projects, as well as the effectiveness of the Group's strengthened cost control measures.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

During the Reporting Period, the Group's operating cost associated with tap water sales amounted to RMB165.8 million, representing a decrease of 9.7% from RMB183.5 million for the same period of 2025. The decrease was mainly due to the expiration of depreciation periods for certain assets resulting in the cessation of depreciation charges and a decrease in depreciation expenses during the period, as well as the Group's strengthening of cost control, which led to significant decreases in power expenses, maintenance expenses and water production material expenses. Operating cost associated with tap water sales accounted for 43.7% and 43.8% of our total operating cost for the six months ended 30 June 2025 and 2026, respectively.

1.2.1.2 Engineering installation

During the Reporting Period, the Group's operating cost associated with installation services amounted to RMB14.1 million, representing a decrease of 51.5% from RMB29.0 million for the same period of 2025. The decrease was mainly due to the downturn in the property market and the decline in installation projects for newly built residential units. Operating cost associated with installation services accounted for 6.9% and 3.7% of the total operating cost for the six months ended 30 June 2025 and 2026, respectively.

1.2.2 Wastewater treatment

During the Reporting Period, the Group's operating cost from wastewater treatment operating services amounted to RMB193.2 million, representing a decrease of 6.3% from RMB206.3 million for the same period of 2025. The decrease was mainly due to the Group's strengthening of cost control, resulting in significant reductions in sludge treatment costs, cost of pharmacy and other expenses. Operating cost from wastewater treatment operating services accounted for 49.1% and 51.1% of the total operating cost for the six months ended 30 June 2025 and 2026, respectively.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit amounted to RMB197.1 million during the Reporting Period, representing an increase of 0.8% from RMB195.5 million for the same period of 2025. Gross profit margin increased from 31.8% for the same period of 2025 to 34.3% during the Reporting Period. The increase was mainly due to the Group's continued strengthening of cost control, which resulted in a decrease in production costs in the tap water supply and wastewater treatment segments, thereby driving the growth in gross profit.

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 RMB11.5 million, representing an increase of 123.5% from RMB5.1 million for the same period of 2025. Its corresponding gross profit margin increased from 2.7% for the same period of 2025 to 6.5% for the Reporting Period. The increase was mainly due to the cessation of depreciation charges for certain assets as their depreciation periods expired, resulting in a decrease in depreciation expenses during the period, as well as the Group's strengthening of cost control, which led to significant decreases in power expenses, maintenance expenses and water production material expenses, thereby increasing the gross profit from tap water sales.

1.3.1.2 Engineering installation

During the Reporting Period, the gross profit of the Group for installation services amounted to RMB24.4 million, representing a decrease of 35.6% from RMB37.9 million for the same period of 2025. Its corresponding gross profit margin increased from 56.6% for the same period of 2025 to 63.4% for the Reporting Period. The decrease in gross profit was mainly due to the downturn in the property market and the decline in installation projects for newly built residential units.

1.3.2 Wastewater treatment

During the Reporting Period, the gross profit of the Group for wastewater treatment operating services amounted to RMB158.2 million, representing an increase of 4.6% from RMB151.3 million for the same period of 2025. The corresponding gross profit margin increased from 42.3% for the same period of 2025 to 45.0% during the Reporting Period. The increase was mainly due to the Group's strengthening of cost control, resulting in significant reductions in sludge treatment costs, cost of pharmacy and other expenses, thereby increasing the gross profit from wastewater treatment.

1.4 Other revenue

During the Reporting Period, the Group's other revenue amounted to RMB30.1 million, representing an increase of 3.3% from RMB29.1 million for the same period of 2025. The increase was mainly due to the receipt of RMB1.0 million government grants for the "Implementation Project Completion and Production Achievement Incentive" during the Reporting Period.

1.5 Selling expenses

During the Reporting Period, the Group's selling expenses amounted to RMB9.3 million, representing a decrease of 5.7% from RMB9.8 million for the same period of 2025. The decrease was mainly attributable to the Group's strengthening of cost control, resulting in reductions in handling fees, communication expenses, vehicle expenses and other related expenses.

1.6 Management expenses

During the Reporting Period, the Group's management expenses amounted to RMB50.8 million, representing an increase of 13.5% from RMB44.7 million for the same period of 2025. The increase was mainly due to the enhancement of the management policy standards for labor union funds in Sichuan Province, resulting in a year-on-year increase in labor union fund expenses.

1.7 Research and development expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB1.9 million. The main reason was the addition of a number of approved research and development projects, including the application research of UASB (Upflow Anaerobic Sludge Blanket Process) for treatment of distillery wastewater from small and micro liquor-making enterprises, the intelligent chemical dosing system and the PAC intelligent dosing system (intelligent water purification agent dosing system), resulting in a year-on-year increase in related research and development investment.

1.8 Finance costs

During the Reporting Period, the Group's finance costs amounted to RMB39.2 million, representing a decrease of 11.4% from RMB44.2 million for the same period of 2025. The decrease was mainly due to the scheduled repayment of the principal amounts of a number of matured borrowings, coupled with the reduction in interest rates after loan replacement, resulting in a year-on-year decrease in interest expenses.

1.9 Income tax expense

During the Reporting Period, the Group's income tax expense amounted to RMB19.0 million, representing a decrease of 17.0% from RMB22.9 million for the same period of 2025. The decrease was mainly due to the reduction in operating revenue, which led to a decrease in taxable profit for the period and a corresponding decrease in income tax expense. For the six months ended 30 June 2025 and 2026, the Group's effective tax rates were 24.0% and 21.1%, respectively.

1.10 Net profit and net profit margin

As a result of the above, the Group's net profit during the Reporting Period amounted to RMB70.8 million, representing a decrease of 1.9% from RMB72.2 million for the same period of 2025. Net profit margin increased from 11.7% for the six months ended 30 June 2025 to 12.3% during the Reporting Period.

2. Analysis of Key Items in the Balance Sheet

2.1 Accounts receivable

Accounts receivable of the Group were RMB752.3 million and RMB812.4 million as of 31 December 2025 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	
	2026	2025
Average turnover days of accounts receivable(1)	**243**	208

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 RMB72.6 million and RMB75.6 million as of 31 December 2025 and as at the end of the Reporting Period, respectively. The increase was mainly due to the increase in contract performance costs attributable to projects under construction.

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

	Six months ended 30 June	
	2026	2025
Average turnover days of inventories receivable(2)	**35**	31

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 2025 and as at the end of the Reporting Period, the Group's other receivables were RMB43.1 million and RMB35.1 million, respectively. The decrease was mainly due to the combined effects of the recovery of household meter subsidy funds in the main urban area and the provision for bad debts.

2.4 Fixed assets

As of 31 December 2025 and as at the end of the Reporting Period, the Group's fixed assets were RMB3,714.0 million and RMB3,532.3 million, respectively. The decrease was mainly due to the normal provision of depreciation of fixed assets, as well as the corresponding reduction in the original value of the fixed assets of the Chengdong Wastewater Treatment Plant Phase II based on the audited final settlement amount.

2.5 Construction in progress

As of 31 December 2025 and as at the end of the Reporting Period, the balance of construction in progress of the Group was RMB69.9 million and RMB131.9 million, respectively. The increase was mainly due to the continuous advancement of a number of key water supply projects during the period, including the Phase II of the Household Meter Renovation Project in the Main Urban Area and the Phase I of the Water Supply Network Leakage Control Project in Hejiang County.

2.6 Intangible assets

As of 31 December 2025 and as at the end of the Reporting Period, the Group's intangible assets were RMB1,543.0 million and RMB1,515.3 million, respectively. The decrease was mainly due to the normal amortization of intangible assets.

2.7 Long-term deferred expenses

As of 31 December 2025 and as at the end of the Reporting Period, the Group's long-term deferred expenses were RMB149.6 million and RMB135.9 million, respectively. The decrease was mainly due to the normal amortization of long-term deferred expenses.

2.8 Short-term borrowings

As of 31 December 2025 and as at the end of the Reporting Period, the Group's short-term borrowings were RMB483.3 million and RMB527.3 million, respectively. The increase was mainly due to the rollover of certain long-term borrowings upon maturity, which were replaced by short-term borrowings.

2.9 Accounts payable

As of 31 December 2025 and as at the end of the Reporting Period, the Group's accounts payable were RMB387.1 million and RMB261.9 million, respectively. The decrease was mainly due to the payment for works and materials, etc. upon maturity.

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

	Six months ended 30 June	
	2026	2025
Average turnover days of accounts payable[3]	**154**	176

Note:

[3] Turnover days of accounts payable: 180/number of accounts payable turnover, number of accounts payable turnover: operating cost/average balance of accounts payable.

2.10 Contract liabilities

As of 31 December 2025 and as at the end of the Reporting Period, the Group's contract liabilities were RMB196.3 million and RMB208.3 million, respectively. The increase was mainly due to the increase in advance receipts of water fees.

2.11 Other payables

As of 31 December 2025 and as at the end of the Reporting Period, the Group's other payables were RMB215.2 million and RMB273.3 million, respectively. The increase was mainly due to the increase in dividends payable and 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 2025 and as at the end of the Reporting Period, the Group's non-current liabilities due within one year were RMB407.1 million and RMB485.4 million, respectively. The increase was mainly due to the increase in long-term borrowings maturing within one year.

2.13 Long-term borrowings

As of 31 December 2025 and as at the end of the Reporting Period, the Group's long-term borrowings were RMB1,266.5 million and RMB905.5 million, respectively. The decrease was mainly due to the repayment of principal amounts of long-term borrowings upon maturity, as well as the rollover of certain long-term borrowings upon maturity, which were replaced by short-term borrowings.

2.14 Long-term payables

As of 31 December 2025 and as at the end of the Reporting Period, the Group's long-term payables remained unchanged at RMB780.8 million.

2.15 Deferred income

As of 31 December 2025 and as at the end of the Reporting Period, the Group's deferred income was RMB158.0 million and RMB146.8 million, respectively. The decrease was mainly due to the amortization of deferred income being recognized in other revenue during the period in accordance with relevant requirements.

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 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 RMB449.1 million (at the end of 2025: RMB606.0 million).

As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,667.7 million (at the end of 2025: RMB2,915.8 million), including bank and other borrowings. Approximately 32.7% of bank and other borrowings bear interest at floating rates, short-term borrowings and non-current liabilities due within one year amounted to approximately RMB982.1 million, all of which were domestic RMB borrowings. The amount of fixed-rate borrowings was RMB1,796.2 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 99.9% (at the end of 2025: 105.2%).

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 829 employees (at the end of 2025: 844 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB78.9 million (for the six months ended 30 June 2025: RMB75.0 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 concession rights of 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 County No. 2 Wastewater 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.

(VIII) 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. The Group does not currently hedge its exposure to foreign currencies.

(IX) CONTINGENT LIABILITIES

During the Reporting Period, the Company did not have any other material contingent liabilities required to be disclosed.

(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 2026 (for the six months ended 30 June 2025: 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' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, to the best knowledge of the Board, none of the Directors 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 applicable 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.

Since certain Directors of the Company were nominated by shareholders and the selection of successors for certain Directors is still in progress, the Company was unable to complete the transition of the Board before the expiry of the three-year term of the second session of the Board, which constitutes a deviation from Code Provision B.2.2 of the Corporate Governance Code. Prior to the completion of the re-election process, the existing Directors will continue to perform their respective duties.

In addition, Mr. Chen Qinan ("**Mr. Chen**") concurrently serves as the chairman of the Board and the general manager of the Company, which deviates from Code Provision C.2.1 of the Corporate Governance Code. However, such arrangement is only a temporary arrangement of the Company. The Company believes that its Board structure is appropriate and that there are sufficient checks and balances in the power distribution to safeguard the interests of the Company and its shareholders. The dual roles of chairman of the Board and general manager performed by Mr. Chen will not affect the implementation of the Group's business strategies and its operational efficiency. The Company will continue to identify a suitable candidate to succeed the general manager.

During the Reporting Period, save for Code Provisions B.2.2 and C.2.1 of the Corporate Governance Code, the Company has complied with all applicable 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 comply with the relevant provisions of the Listing Rules.

(V) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 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 all Directors 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 with 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 the public float as required under the Listing Rules, namely at least 25% of the total issued share capital of the Company being held by the public.

(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 2026 and has discussed with the senior management the accounting policies and practices adopted by the Company as well as matters relating to internal control. The Audit Committee has no disagreement with the accounting treatment adopted by the Company.

IV. REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2026 has 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 2026 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 Hong Kong 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 2026 will be dispatched to the shareholders of the Company if so requested and released on the websites of the Hong Kong Stock Exchange and the Company in due course.

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

Luzhou, the PRC
26 August 2026

As at the date of this announcement, the Board comprises of (i) two executive Directors, namely 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*