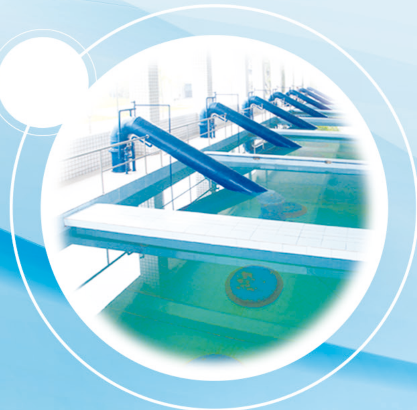
瀘州市興瀘水務(集團)股份有限公司

LUZHOU XINGLU WATER (GROUP) CO., LTD.*

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

Stock Code: 2281

2017 INTERIM REPORT



* For identification purposes only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Qi (張歧先生) *(Chairman of the Board)*
Mr. Liao Xingyue (廖星樾先生)
Mr. Wang Junhua (王君華先生)

Non-executive Directors

Mr. Chen Bing (陳兵先生)
Mr. Yang Ronggui (楊榮貴先生)
(resigned on 12 September 2017)
Ms. Xu Yan (徐燕女士)
Mr. Xie Xin (謝欣先生)
(appointed on 12 September 2017)

Independent Non-executive Directors

Mr. Gu Ming'an (辜明安先生)
Mr. Lin Bing (林兵先生)
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)

STRATEGY COMMITTEE

Mr. Chen Bing (陳兵先生) *(Chairman)*
Mr. Zhang Qi (張歧先生)
Mr. Lin Bing (林兵先生)

AUDIT COMMITTEE

Mr. Cheng Hok Kai, Frederick (鄭學啟先生) *(Chairman)*
Mr. Gu Ming'an (辜明安先生)
Mr. Yang Ronggui (楊榮貴先生)
(resigned on 12 September 2017)
Mr. Xie Xin (謝欣先生)
(appointed on 12 September 2017)

NOMINATION AND REMUNERATION COMMITTEE

Mr. Gu Ming'an (辜明安先生) *(Chairman)*
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)
Mr. Zhang Qi (張歧先生)

SECRETARY TO THE BOARD

Mr. Chen Yongzhong (陳永忠先生)

COMPANY SECRETARIES

Mr. Chen Yongzhong (陳永忠先生)
Ms. Ng Wing Shan (吳詠珊女士)

AUTHORISED REPRESENTATIVES

Mr. Zhang Qi (張歧先生)
Mr. Chen Yongzhong (陳永忠先生)

REGISTERED ADDRESS, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

16 Baizi Road
Jiangyang District, Luzhou
Sichuan Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road East
Wanchai, Hong Kong

DOMESTIC SHARE REGISTRAR

China Securities Depository and Clearing Corporation Limited
No. 17, Taipingqiao Avenue
Xicheng District, Beijing, PRC

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Wanchai, Hong Kong

LEGAL ADVISERS

As to Hong Kong law

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in Association with Morgan, Lewis & Bockius
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One International Finance Centre
1 Harbour View Street
Central, Hong Kong

As to PRC law

Jia Yuan Law Offices (Beijing)
F408, Level 4, Ocean Plaza
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Xicheng District
Beijing, PRC

COMPLIANCE ADVISER

BOCOM International (Asia) Limited
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68 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Luzhou City Commercial Bank
Bank of Communications Co., Ltd.

AUDITOR

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

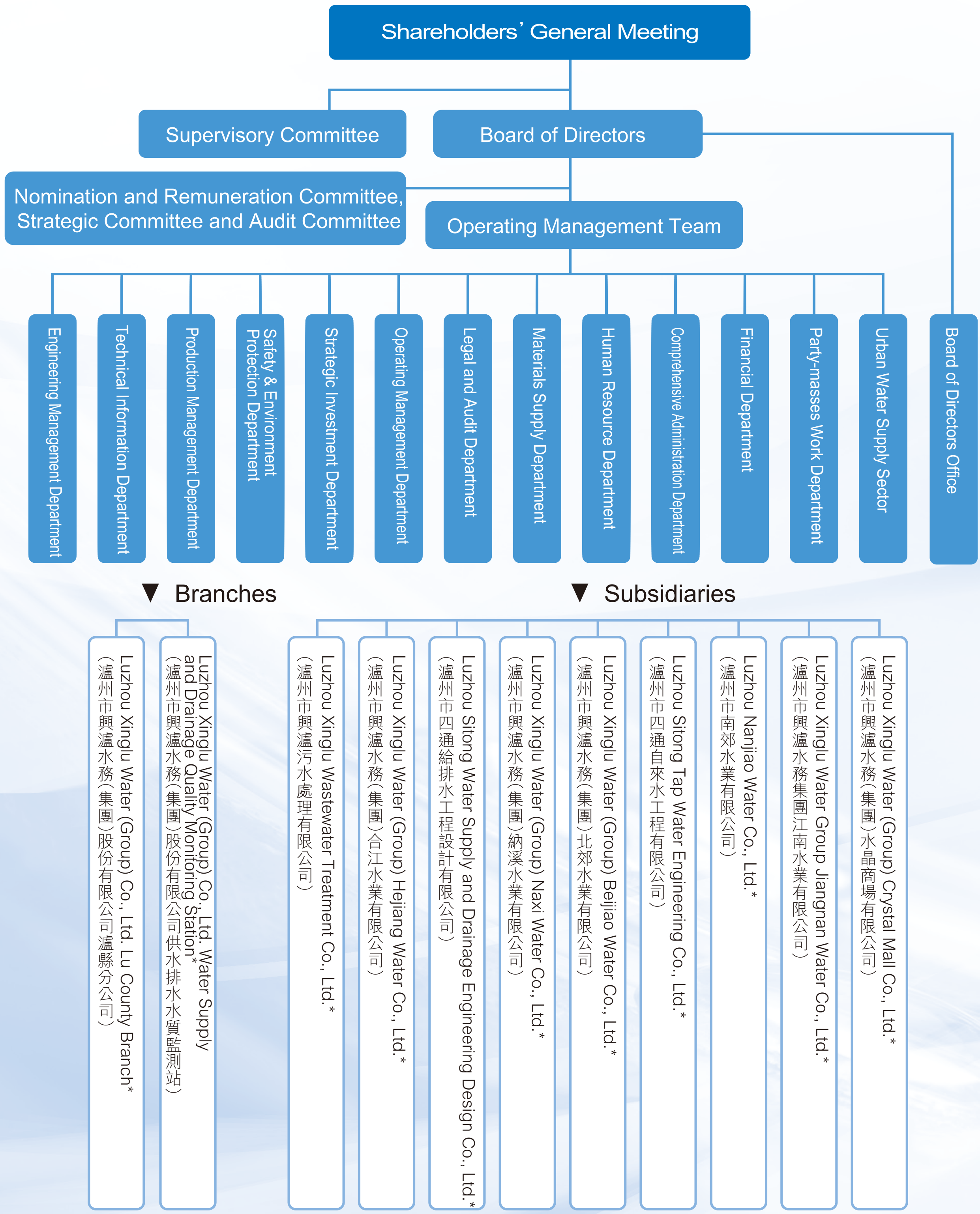
STOCK CODE

2281

COMPANY WEBSITE

www.lzss.com

Organisational Structure



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The board (the "**Board**") of directors (the "**Directors**") of Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司, the "**Company**" or "**us or we**", together with its subsidiaries, collectively as the "**Group**") is pleased to announce the following financial highlights:

Consolidated Results

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**385,770**	444,969
Profit before tax	**62,596**	85,301
Income tax expense	**(9,546)**	(13,023)
Profit for the period	**53,050**	72,278
Profit and total comprehensive income for the period attributable to:		
– Owners of the Company	**48,838**	63,994
– Non-controlling interests	**4,212**	8,284
Return on shareholders' interests *(Note)*	**3.4%**	6.0%
Basic earnings per share *(RMB)*	**0.06**	0.10

Note: Return on shareholders' interests is calculated based on profit for the period divided by the average total equity at the beginning and end of the period.

* *For identification purposes only*

Consolidated Assets and Liabilities

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Total assets	**2,986,683**	2,659,137
Total liabilities	**(1,198,114)**	(1,287,864)
Total equity	**1,788,569**	1,371,273
Equity attributable to owners of the Company	**1,703,780**	1,289,784
Non-controlling interests	**84,789**	81,489

During the six months ended 30 June 2017 (the "**Reporting Period**"), the unaudited profit attributable to owners of the Company amounted to approximately RMB48.8 million. Basic earnings per share during the Reporting Period were approximately RMB0.06. The Board did not recommend the payment of interim dividends for the Reporting Period.

I. INDUSTRY OVERVIEW

Benefited from the policies of the People's Republic of China ("**China**" or the "**PRC**"), including new urbanisation, energy conservation and emission reduction strategy as well as pollution prevention and treatment, the construction scale and service scope of municipal water supply and wastewater treatment industries in China will be further expanded, promising vast market space for water supply enterprises and wastewater treatment enterprises to thrive.

According to relevant policies and statistics, we expect strong performance of main growth drivers in the future for the municipal water supply industry in China. Firstly, China will see the greatest benefits arising from its progress of urbanisation to boost economic and social development. As estimated by the report issued by Frost & Sullivan, China's urbanisation rate will increase from 56.1% to 63.0% for the period from 2015 to 2020, which will bolster further growth of the municipal water supply industry. Secondly, the recent introduction of "Two-child Policy" is expected to drive further population growth, and the ever increasing per capita disposable income of urban households in China will make water fees more affordable to water users. Thirdly, major entry barriers, including government authorisation, stringent requirement for approval, demand for large amount of capital and strong regional barriers, will provide powerful guarantee for business growth of the municipal water supply industry in the area.

As for municipal wastewater treatment, growing awareness of environmental protection among the public will contribute to lasting development of the municipal wastewater treatment industry. Firstly, economic and social development as well as new urbanisation will push up the demand for wastewater treatment. It is expected that the discharge volume of municipal wastewater in Sichuan province will reach 3.3 billion tons and the wastewater treatment volume thereof will reach 3.0 billion tons by 2020, representing a compound annual growth rate of 8.0%. Secondly, as a service procured by government, municipal wastewater treatment is with relatively high entry barriers and subject significantly to governmental guidance. Besides, environmental regulations and legislation and relevant incentive policies are expected to bring about larger room of development for wastewater treatment, and help attract approximately RMB2 trillion investments in the industry during the next five years, which will further spur the development of the municipal wastewater treatment industry in China. Thirdly, with the growing awareness of environmental protection among the public, the PRC government will probably continue to propose higher requirements on the quality of discharged wastewater, and local governments may step up investments in solving problems caused by water pollution. Fourthly, as the PRC government imposes increasingly strict regulations on wastewater discharge by enterprises, especially industrial enterprises, a model that a third party is commissioned to operate the treatment of industrial wastewater is on the rise, which will become a new and relative large profit growth point for enterprises dedicated to municipal wastewater treatment.

II. BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan province, principally engaged in tap water supply and wastewater treatment in Luzhou area. We adopt project models of build-own-operate ("**BOO**") and transfer-own-operate ("**TOO**") in the course of business, where we and local governments enter into concession agreements for a normal period of 30 years.

As at the end of the Reporting Period, the Group owned seven tap water plants and nine wastewater treatment plants, and the daily treatment capacity of relevant projects was approximately 591,500 tons in aggregate.

Our Tap Water Supply Services

As at the end of the Reporting Period, the Group owned seven water supply concession projects with a daily treatment capacity of approximately 330,500 tons in aggregate, representing an addition of one BOO project with a daily treatment capacity of approximately 50,000 tons in total as compared with that as at 30 June 2016. The average utilisation of our tap water plants stood at 80.9% for the Reporting Period, while the figure stood at 86.33% for the six months ended 30 June 2016.

For the Reporting Period, our tap water sales volume was approximately 44.1 million tons, representing an increase of 14.8% as compared with approximately 38.4 million tons for the six months ended 30 June 2016. The increase in tap water sales volume led to an increase of revenue generated from sales of tap water from external customers by 20.5%, from RMB81.2 million for the six months ended 30 June 2016 to RMB97.8 million for the Reporting Period.

Our Wastewater Treatment Services

As at the end of the Reporting Period, we owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 261,000 tons in aggregate, representing an addition of two BOO projects with a daily treatment capacity of approximately 100,000 tons in total as compared with that as at 30 June 2016. The average load rate of our wastewater treatment plants stood at 66.78% for the Reporting Period, while the figure stood at 88.73% for the six months ended 30 June 2016.

As the area and population of cities served by us keep expanding, we recorded higher wastewater treatment volume, which enabled the revenue generated from wastewater treatment operating services to increase by 31.8%, from RMB53.5 million for the six months ended 30 June 2016 to RMB70.5 million during the Reporting Period. The wastewater treatment volume increased from approximately 27.6 million tons for the six months ended 30 June 2016 to approximately 39.1 million tons for the Reporting Period, representing an increase of 41.7%.

III. FINANCIAL REVIEW

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

1.1 Revenue

Revenue of the Group decreased by 13.3% from RMB445.0 million for the six months ended 30 June 2016 to RMB385.8 million for the Reporting Period.

1.1.1 Tap water supply

1.1.1.1 Sales of tap water

Revenue of the Group generated from sales of tap water increased by 20.5% from RMB81.2 million for the six months ended 30 June 2016 to RMB97.8 million for the Reporting Period. Such increase was primarily due to a growth in the sales volume from approximately 38.4 million tons for the six months ended 30 June 2016 to approximately 44.1 million tons for the Reporting Period. Revenue generated from sales of tap water accounted for 18.2% and 25.3% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.1.2 Installation and maintenance services

Revenue of the Group generated from installation and maintenance services increased by 10.1% from RMB61.5 million for the six months ended 30 June 2016 to RMB67.7 million for the Reporting Period. Such increase was mainly due to an increase in installation projects for residential users we completed during the Reporting Period. Revenue generated from installation and maintenance service accounted for 13.8% and 17.6% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.1.3 Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure increased by 15.2% from RMB114.3 million for the six months ended 30 June 2016 to RMB131.7 million for Reporting Period. Such increase was mainly due to an increase in the amount of construction works of the pre-operational projects, such as Qiancao Supply Plant II, for the Reporting Period.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 31.8% from RMB53.5 million for the six months ended 30 June 2016 to RMB70.5 million for the Reporting Period. Such increase was primarily due to the increase in wastewater treatment capacity as we were entitled to a guaranteed minimum treatment tariff after we commenced trial operation upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant from July 2016. Our total treatment volume was 27.6 million tons and 39.1 million tons for the six months ended 30 June 2016 and 2017, respectively. Revenue generated from wastewater treatment operation accounted for 12.0% and 18.3% of our total revenue for the six months ended 30 June 2016 and 2017, respectively.

1.1.2.2 Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 75.4% from RMB10.2 million for the six months ended 30 June 2016 to RMB17.9 million for the Reporting Period. Such increase was mainly due to the increase in receivables under service concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Chengdong Treatment Plant and Chengnan Treatment Plant commencing from July 2016, following their trial operations.

1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure decreased by 99.8% from RMB124.3 million for the six months ended 30 June 2016 to RMB207,000 for the Reporting Period. Such decrease was mainly due to the decrease of the revenue generated from the construction and upgrade of Chengdong Treatment Plant and Chengnan Treatment Plant because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016.

1.2 Cost of Sales and Services

The Group's cost of sales and services decreased by 19.5% from RMB344.7 million for the six months ended 30 June 2016 to RMB277.5 million for the Reporting Period.

1.2.1 Tap water supply

1.2.1.1 Sales of tap water

The Group's cost of sales and services associated with sales of tap water increased by 40.6% from RMB65.1 million for the six months ended 30 June 2016 to RMB91.6 million for the Reporting Period. Such increase was primarily due to the significant increase in maintenance expenses during the Reporting Period. Cost of sales and services from tap water supply operations accounted for 18.9% and 33.0% of our total cost of sales and services for the six months ended 30 June 2016 and 2017, respectively.

1.2.1.2 Installation and maintenance services

The Group's cost of sales and services associated with installation and maintenance services increased by 39.4% from RMB13.1 million for the six months ended 30 June 2016 to RMB18.2 million for the Reporting Period. Such increase was mainly due to the increase in the volume of installation and maintenance work we undertook.

1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services from construction and upgrade on tap water supply infrastructure increased by 15.2% from RMB114.1 million for the six months ended 30 June 2016 to RMB131.4 million for the Reporting Period. Such increase was mainly due to an increase in the amount of construction works of the pre-operational projects during the Reporting Period, such as Qiancao Supply Plant II.

1.2.2 Wastewater treatment

1.2.2.1 Operating service

The Group's cost of sales and services from wastewater treatment operating services increased by 27.7% from RMB28.2 million for the six months ended 30 June 2016 to RMB36.0 million for the Reporting Period. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment plant and Chengnan Treatment Plant from July 2016. Cost of sales and services from wastewater treatment operating services accounted for 8.2% and 13.0% of our total cost of sales and services for the six months ended 30 June 2016 and 2017, respectively.

1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The Group's cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 99.8% from RMB124.1 million for the six months ended 30 June 2016 to RMB207,000 for the Reporting Period. The decrease was mainly because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by the end of June 2016.

1.3 Gross Profit and Gross Profit Margin

As a result of above, our gross profit slightly increased from RMB100.3 million for the six months ended 30 June 2016 to RMB108.3 million for the Reporting Period. Gross profit margin increased from 22.5% for the six months ended 30 June 2016 to 28.1% for the Reporting Period.

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 61.4% from RMB16.0 million for the six months ended 30 June 2016 to RMB6.2 million for the Reporting Period. The corresponding gross profit margin decreased from 19.7% for the six months ended 30 June 2016 to 6.3% for the Reporting Period, primarily due to an increase in maintenance expenses and staff costs of Nanjiao Supply Plant II while its production has not yet reached its full capacity.

1.3.1.2 Installation and maintenance services

The gross profit of the Group for installation and maintenance services increased by 2.2% from RMB48.5 million for the six months ended 30 June 2016 to RMB49.5 million for the Reporting Period. The corresponding gross profit margin remained stable at 78.8% and 73.1% for the six months ended 30 June 2016 and 2017, respectively.

1.3.1.3 Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade on tap water supply infrastructure remained stable at RMB229,000 and RMB274,000 for the six months ended 30 June 2016 and 2017, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II and Nanjiao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% and 0.2% for the six months ended 30 June 2016 and 2017, respectively.

1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services increased by 36.4% from RMB25.2 million for the six months ended 30 June 2016 to RMB34.4 million for the Reporting Period. The corresponding gross profit margin increased from 47.2% for the six months ended 30 June 2016 to 48.8% for the Reporting Period. The increase in gross profit margin was mainly because Chengdong Treatment Plant and Chengnan Treatment Plant started trial operation in July 2016 and had not yet reached their full capacity for the Reporting Period while they are entitled to guaranteed minimum treatment tariff.

1.3.2.2 Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure decreased from RMB136,000 for the six months ended 30 June 2016 to nil for the Reporting Period. Such decrease was mainly due to the construction of Chengdong Treatment Plant and Chengnan Treatment Plant which had been completed in June 2016. The construction of wastewater treatment infrastructure recorded a gross profit margin of 0% during the Reporting Period.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net decreased significantly from RMB16.1 million for the six months ended 30 June 2016 to RMB7.4 million for the Reporting Period.

While there was an increase in VAT refund pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) in connection with our wastewater treatment operations, the decrease was recorded in other income, expenses, gains and losses (net), which was mainly because there was no gains on disposal of properties (for the six months ended 30 June 2016: RMB3.4 million) and the Group recorded a net foreign exchange losses of RMB7.6 million (included in our tap water supply segment), mainly arising from retranslation of our Hong Kong dollar denominated listing proceeds into Renminbi as a result of depreciation of Hong Kong dollar against Renminbi (for the six months ended 30 June 2016: Nil) for the Reporting Period.

1.5 Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 48.7% from RMB4.5 million for the six months ended 30 June 2016 to RMB6.7 million for the Reporting Period.

Such increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force, and the increase in promotion and advertisements expenses, while to a lesser extent due to an increase in the salary of our employees.

1.6 Administrative Expenses

The Group's administrative expenses increased by 40.1% from RMB19.0 million for the six months ended 30 June 2016 to RMB26.5 million for the Reporting Period. The increase was mainly due to (i) an increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and an increase in the salary of our employees to a lesser extent; and (ii) the increase in various office expenses.

1.7 Listing Expenses

The Group's listing expenses increased from RMB1.1 million for the six months ended 30 June 2016 to RMB7.7 million for the Reporting Period. We completed our global offering in March 2017 and incurred most of our listing expenses during the Reporting Period.

1.8 Finance Costs

The Group's finance costs increased by 83.6% from RMB6.6 million for the six months ended 30 June 2016 to RMB12.2 million for the Reporting Period, primarily due to the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant since July 2016.

1.9 Income Tax Expense

The Group's income tax expenses decreased from RMB13.0 million for the six months ended 30 June 2016 to RMB9.5 million for the Reporting Period that is in line with the decrease in profit before tax. The effective tax rate of the Group both remained stable at 15.3% for the six months ended 30 June 2016 and 2017.

1.10 Profit after Tax and Profit after Tax Margin

As a result of above, profit after tax of the Group decreased by 26.6% from RMB72.3 million for the six months ended 30 June 2016 to RMB53.1 million for the Reporting Period. Our profit after tax margin decreased from 16.2% for the six months ended 30 June 2016 to 13.8% for the Reporting Period.

2. Analysis of Key Items of Condensed Consolidated Statement of Financial Position

2.1 Property, Plant and Equipment

Our property, plant and equipment was RMB37.0 million and RMB37.8 million as at 31 December 2016 and the end of the Reporting Period, respectively, which consisted primarily of office buildings, machinery and office equipment, office equipment and fixtures and vehicles. Apart from the deprecation, property, plant and equipment slightly increased from RMB37.0 million as of 31 December 2016 to RMB37.8 million as of the end of the Reporting Period, mainly due to additions of non-infrastructure related machinery and office equipment.

2.2 Intangible Assets

Intangible assets of the Group were RMB1,022.1 million and RMB1,133.7 million as at 31 December 2016 and the end of the Reporting Period, respectively. Such increase was mainly due to the construction and upgrade work we completed for our construction and upgrade projects, such as Qiancao Supply Plant II.

2.3 Receivables under Service Concession Arrangements

The receivables under service concession arrangements of the Group were RMB773.2 million and RMB767.6 million as at 31 December 2016 and the end of the Reporting Period, respectively. Such decrease was mainly due to settlement of the receivables.

2.4 Inventories

Our inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to RMB17.4 million and RMB26.2 million, as at 31 December 2016 and the end of the Reporting Period, respectively. Such increase was mainly because the Group began overall district water supply and therefore the business of installation of water meters expanded, and the Group purchased a large amount of far passing water gauge and pipe material.

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

	Six months ended 30 June	
	2017	2016
Average inventory turnover days [(1)]	**27**	29

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number days in the period.

We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water, installation and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days decreased from 29 days for the six months ended 30 June 2016 to 27 days for the Reporting Period, such decrease was primarily as a result of our enhanced internal control over inventories.

2.5 Trade Receivables

Our trade receivables were RMB83.7 million and RMB120.5 million as at 31 December 2016 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2017	2016
Average trade receivables turnover days (1)	**73**	79

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number of days in the period.

We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water, installation in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days decreased from 79 days for the six months ended 30 June 2016 to 73 days for the Reporting Period, such decrease was primarily as a result of our enhanced management policies on receivables collection.

2.6 Trade Payables

Our trade payables were RMB10.4 million and RMB11.6 million as at 31 December 2016 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2017	2016
Average trade payables turnover days (1)	**14**	15

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number of days in the period.

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water, installation and maintenance services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days remained stable for the six months ended 30 June 2016 and 2017.

2.7 Trade and Construction Payables

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	Six months ended 30 June	
	2017	2016
Average trade payables and construction payables turnover days [(1)]	**110**	66

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 66 days for the six months ended 30 June 2016 to 110 days for the Reporting Period. Such increase was primarily because of our increased payables incurred in relation to various tap water supply projects, including Qiancao Supply Plant II.

2.8 Deferred Revenue

Our deferred revenue was RMB128.6 million and RMB125.2 million as at 31 December 2016 and the end of Reporting Period, respectively. The slight decrease in deferred revenue was mainly due to the release of the deferred revenue recognised in profit or loss.

2.9 Advance from Customers and Other Payables

Our advance from customers and other payables decreased from RMB319.9 million as at 31 December 2016 to RMB290.2 million at the end of the Reporting Period, which was primarily attributable to decrease in construction payables.

3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company (the "**Shareholders**") through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Reporting Period. The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

As at the end of Reporting Period, the cash and cash equivalents of the Group amounted to RMB720.0 million (31 December 2016: RMB526.6 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to RMB603.4 million (31 December 2016: RMB685.3 million), including bank and other borrowings. Approximately 77.5% of our bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was -6.5% (31 December 2016: 11.2%).

IV. EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 780 employees (31 December 2016: 787 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB54.5 million (six months ended 30 June 2016: RMB41.2 million). The Group will endeavour to keep the level of employees' remuneration in line with industry practices and prevailing market conditions. And, such remunerations for employees, including basic and floating wages, discretionary bonuses and staff benefits, will be determined by 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.

V. FOREIGN EXCHANGE RISKS

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group has a borrowing from The World Bank that is US$ denominated and unutilised listing proceeds denominated in Hong Kong dollar as at the end of the Reporting Period and recognised net foreign exchange losses of RMB7.6 million in the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

VI. CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group did not have any material contingent liabilities.

VII. PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, the secured bank borrowings of the Group was RMB134,000,000, which were secured by the Group's charging right for certain wastewater treatment fees and bear interest at a floating rate of 4.90% per annum (31 December 2016: (audited) 4.90% per annum). Save as disclosed above, the Group did not pledge any of its assets as at the end of the Reporting Period.

VIII. MAJOR ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not have any major acquisitions and disposals of subsidiaries, associates and joint ventures.

IX. SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the available-for-sale investments held by the Group amounted to RMB53.63 million (31 December 2016: RMB53.63 million), which represents the Group's equity investment in 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC that do not have quoted market prices in an active market and whose faire values cannot be reliably measured.

X. EVENTS AFTER THE REPORTING PERIOD

On 16 August 2017, the Company initiated the project of the construction of Naxi Supply Plant (Phase I).

* *For identification purposes only*

XI. OUTLOOK

In recent years, the Chinese government has implemented a series of policies to support and stimulate the development of municipal water services. In April 2015, the State Council of China published the action plan for the prevention of water pollution. According to the report issued by Frost & Sullivan, the plan will guide the government to make significant investment in municipal water supply and sewage treatment businesses and take major actions as well. In March 2016, the Chinese government published the 13th Five-Year Plan Outline for National Economy and Social Development, stressing the need to strengthen the protection of water safety, speed up the improvement of the ecological environment, intensify the comprehensive environmental governance and strengthen the construction of environmental infrastructure. The government also asked that "the construction and reformation of township sewage treatment facilities and pipe network should be sped up, the harmless and resourceful treatment of sludge should be promoted, the facilities for life sewage and rubbish treatment should be installed in all townships and meet the standard for steady operation and the centralized treatment rate for cities and townships should reach 95% and 85% respectively." In December 2016, the Chinese government published the 13th Five-Year Construction Plan for National Township Sewage Treatment and Reclaimed Water Usage Facilities, stressing that during the 13th Five-Year, further preparation and planning should be made, a reasonable layout should be used and investment should be increased to realize the transformation of the construction of township sewage treatment facilities from "increase in scale" to "improvement in quality and effectiveness" and fully enhance the protection and service level of China's township sewage treatment facilities so that the public will see for themselves the improvement results of water environment. We believe that a series of national policies have brought new opportunities and provided a broader platform for the water service and environmental protection industries. In addition, the Chinese government has vigorously promoted the development of the Yangtze River economic zone, putting forward "the strategic positioning of committing to ecology being the priority and green development, putting the repairing of the Yangtze River ecological environment in the first place and promoting the synergetic development of upper, middle and lower reaches of the Yangtze River and the interactive cooperation of the East, Middle and West of China so as to construct a model belt, innovation and driving belt and collaborative development belt for China's ecologic culture construction." Luzhou is in the upper reach of Yangtze River. These policies will bring new economic growth opportunities to Luzhou area and stimulate the needs for municipal water services. We will also benefit from the economic development in Luzhou area and the further development of China's Southwest area.

Looking into the future, the Group will still uphold a corporate development strategy based on businesses operated in Luzhou area, as it persistently seeks investment opportunities to expand its businesses to other areas of China where the Group maintains competitive advantages, especially, areas in Sichuan, Chongqing, Yunnan and Guizhou. The Group will seize the opportunities from the tap water and environmental protection industries and acquire appropriate projects in line with its experience in public-private-partnership practices for the complementation of existing businesses, so as to enlarge its market share. The Group will also further raise the operational efficiency by constantly taking its technologies and project management to higher levels.

Significant Events

I. INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the Reporting Period (six months ended 30 June 2016: Nil).

II. GLOBAL OFFERING

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 31 March 2017 (the "**Listing Date**"), and 214,940,000 H Shares with par value of RMB1.00 each had been issued by the Company at the price of HK$2.30 per Share, with net proceeds received from the issuance of approximately HK$400.8 million. Upon successful completion of the initial public offering (the "**IPO**") of the Company's H Shares on the Stock Exchange on the Listing Date, the Company had issued 859,710,000 Shares (the "**Shares**") in total, of which 644,770,000 were domestic Shares and 214,940,000 were H Shares. As at the end of the Reporting Period, HK$61.8 million of the proceeds had been used by the Group for uses as disclosed in the prospectus dated 21 March 2017 and HK$339.0 million of the proceeds had not yet been used.

III. INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at the end of the Reporting Period, none of the Directors, supervisors of the Company (the "**Supervisors**") or chief executive of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") to be notified to the Company and Stock Exchange.

IV. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES AND SHORT POSITIONS

As at the end of the Reporting Period, so far as is known to the Company, the following persons and entities (other than the Directors, Supervisors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section:

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares[(1)]	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司, "**Xinglu Investment**")[(2)]	Beneficial owner	Domestic Shares	511,654,127 (L)	79.35%	59.52%
	Interest in a controlled corporation	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司)	Beneficial owner	Domestic Shares	70,406,310 (L)	10.92%	8.19%
Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司, "**Luzhou Infrastructure**")[(2)]	Beneficial owner	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited[(3)]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited[(3)]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited[(3)]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited[(3)]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd[(4)(7)]	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%
Sichuan Development Holding Co., Ltd[(4)]	Interest in a controlled corporation	H Shares	19,247,000 (L)	8.95%	2.24%
Suntront Tech Co., Ltd[(5)(7)]	Beneficial owner	H Shares	16,884,000 (L)	7.85%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產開發有限公司)[(6)(7)]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬)[(7)]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅)[(7)]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬)[(7)]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd[(7)]	Beneficiary of a trust	H Shares	94,671,000 (L)	44.04%	11.00%

* *For identification purposes only*

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares[1]	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	19,247,000 (L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	16,884,000 (L)	7.85%	1.96%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)[7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%

Notes:

(1) As at the end of the Reporting Period, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position.

(2) Xinglu Investment has 79.13% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Luzhou Infrastructure.

(3) Beijing Enterprises Group (BVI) Company Limited, 100% owned by Beijing Enterprises Group Company Limited, has 41.06% interests in Beijing Enterprises Holdings Limited which owns 100% interests of Beijing Enterprises Environmental Construction Limited which in turn has 43.76% interests in Beijing Enterprises Water Group Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.

(4) Sichuan Development Holding Co., Ltd has 100% interests in Sichuan Sans Venture Capital Co., Ltd. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd is deemed to be interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.

(5) Fei Zhanbo has 35.52% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Fei Zhanbo is deemed to be interested in H Shares held by Suntront Tech Co., Ltd.

(6) Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司) has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產發展有限公司). Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed to be interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd.

(7) Sichuan Sans Venture Capital Co., Ltd holds a total of 19,247,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Suntront Tech Co., Ltd holds a total of 16,884,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Luzhou Xiangyang Real Estate Development Co., Ltd holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; and Yang Bin holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd, acting as the trustee for the above-mentioned trusts, is deemed to be interested in the aggregate 94,671,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-13 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Company, as at the end of the Reporting Period, no person (other than the Directors, Supervisors and chief executives of the Company) informed the Company that they had interests and/or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section.

V. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

From the Listing Date to the end of the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or bonds of the Company to any Directors and Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights; nor did the Company or any of its subsidiaries have any arrangement enabling the Directors to acquire such rights in any other body corporate.

VI. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, to the best knowledge of the Board, none of the Directors and Supervisors and their respective associates has any business or interest that competes or may compete with the business of the Group or has or may have any other conflict of interest with the Group.

VII. COMPLIANCE WITH NON-COMPETITION AGREEMENT

The controlling shareholder of the Company, Luzhou City Xinglu Investment Group Co., Ltd.* (the "**Controlling Shareholder**") signed a non-competition agreement (the "**Non-competition Agreement**") on 10 March 2017, in favour of the Company. Pursuant to the Non-competition Agreement, the Controlling Shareholder has irrevocably undertaken to the Company that it would not, and would procure that its controlled entities would not, during the restricted period set out below, directly or indirectly, either on its own account or in conjunction with any person, firm or company, carry on, participate, be interested, engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time (the "**Non-competition Business**"). In addition, the Controlling Shareholder will exercise its voting rights in the relevant board meetings and Shareholders' meetings and use its best efforts to procure its associated entities to comply with such requirements. Under the Non-competition Agreement, the controlled entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder: (i) can exercise or control the exercise of more than 50% of the equity, issued share capital or the voting power at general meetings (if applicable); (ii) is entitled to more than 50% of the after-tax profits; (iii) can control the composition of a majority of the board of directors; or (iv) takes actual control through agreements or any other arrangements. Associated entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder has interest and which are not controlled entities. Pursuant to the Non-competition Agreement, the Non-competition Business refers to all business lines of the Group operated currently and to be operated from time to time in the future, which includes but not limited to tap water supply and wastewater treatment services.

The "restricted period" stated in the Non-competition Agreement refers to the period during which the Controlling Shareholder undertakes not to compete with the Group in accordance with the provisions of the Non-competition Agreement until the occurrence of the earliest of: (i) the H Shares of the Company ceasing to be listed on the Main Board of the Stock Exchange; and (ii) in respect of the Controlling Shareholder, the Controlling Shareholder and its associates (excluding the Group) ceasing to be entitled to exercise or control the exercise of 30% or more in aggregate of the voting right at general meetings of the Company and having no control over the majority of the Board, or ceasing to be regarded as a controlling shareholder pursuant to the applicable laws and regulations, or ceasing to hold, directly or indirectly, any equity interest in the Company.

For details of the above Non-competition Agreement, please refer to the section headed "Relationship with our Controlling Shareholder" in the prospectus of the Company dated 21 March 2017.

The independent non-executive Directors have reviewed the information provided by the Controlling Shareholder regarding compliance with the Non-competition Agreement and determined that the Controlling Shareholder had fully complied with and were not in breach of the Non-competition Agreement until the end of the Reporting Peried.

VIII. SHARE OPTION SCHEME

The Company had no share option scheme from the Listing Date to the end of the Reporting Period.

IX. PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company and the PRC laws, the Company is not subject to any requirement on pre-emptive rights.

X. SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, at least 25% of the total issued share capitals of the Company are held in public hands as at the date of this report.

XI. 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.

From the Listing Date to the end of the Reporting Period, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

XII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and Supervisors. Model Code applies to all the Directors and Supervisors and other persons who are aware of share price sensitive information of the Group in respect of the restrictions and disclosure requirements for securities trading. After making specific inquiries to all the Directors and Supervisors, all the Directors and Supervisors confirmed that they had fully complied with Model Code from the Listing Date to the end of the Reporting Period.

XIII. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to the end of the Reporting Period, none of the Company or any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

XIV. AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the Reporting Period on 28 August 2017 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.

The appointment of Mr. Xie Xin as a member of the Audit Committee is effective from 12 September 2017. Meanwhile, the resignation tendered by Mr. Yang Ronggui as a member of the Audit Committee is also effective from the same date.

XV. NOMINATION AND REMUNERATION COMMITTEE

The nomination and remuneration committee of the Company (the "**Nomination and Remuneration Committee**") consists of two independent non-executive Directors, namely Mr. Gu Ming'an and Mr. Cheng Hok Kai, Frederick, and an executive Director Mr. Zhang Qi, with Mr. Gu Ming'an serving as the chairman of the Nomination and Remuneration Committee. The primary responsibilities of the Nomination and Remuneration Committee are to make recommendations to the Board on the appointment and removal of the directors and senior management of the Company, to establish and review the policy and structure of the remuneration for the directors and senior management of the Company and to make recommendations on employee benefit arrangement. The terms of reference of the Nomination and Remuneration Committee are available for inspection on the Company's website and the website of the Stock Exchange.

XVI. STRATEGY COMMITTEE

The strategy committee of the Company (the "**Strategy Committee**") consists of a non-executive director Mr. Chen Bing, an executive director Mr. Zhang Qi and an independent non-executive director Mr. Lin Bing, with Mr. Chen Bing serving as the chairman of the Strategy Committee. The primary responsibilities of Strategy Committee are to formulate the operation goals and long-term development strategies of the Company, to make proposals on major events and to supervise the implementation of annual operating plans and proposals. The terms of reference of the Strategy Committee are available for inspection on the Company's website and the website of the Stock Exchange.

XVII. CHANGE IN DIRECTORS', SUPERVISORS' AND THE SENIOR MANAGEMENT'S INFORMATION

From the Listing Date to the publication date of this interim report, the changes of the Directors, Supervisors and the senior managements of the Company are as follows:

1. As disclosed in announcements of the Company dated 28 August 2017 and 12 September 2017, Mr. Yang Ronggui (楊榮貴) submitted his resignation to the Board for resigning from the office as a non-executive Director and a member of Audit Committee with effect from 12 September 2017.

2. As disclosed in announcements of the Company dated 28 August 2017 and 12 September 2017, Mr. Xie Xin (謝欣) was appointed as a non-executive Director and a member of Audit Committee with effect from 12 September 2017.

XVIII. REVIEW OF INTERIM REPORT

The Group's condensed consolidated interim financial statements disclosed in this interim report for the six months ended 30 June 2017 are not audited. The condensed consolidated interim financial statements prepared by the Company under the International Accounting Standards have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board, while the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2016 and the relevant explanatory notes have not been reviewed. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 have also been reviewed by the Audit Committee.

The Group's interim report for the six months ended 30 June 2017 has also been considered and approved by the Board and its Audit Committee.

XIX. PUBLICATION OF THE INTERIM REPORT

The interim report of the Group for the six months ended 30 June 2017 contains all the information required by the Listing Rules, and will be dispatched to the Shareholders and released on the websites of the Company (www.lzss.com) and the Stock Exchange (http://www.hkex.com.hk).

XX. APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our Shareholders, customers, suppliers and business partners for their continued supports.

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

Luzhou, the PRC
28 August 2017

* *For identification purposes only*

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF LUZHOU XINGLU WATER (GROUP) CO., LTD.
(A joint stock company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 31 to 56, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**ISRE 2410**") issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

We draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the six-month period ended 30 June 2016 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with ISRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	3	**385,770**	444,969
Cost of sales and services		**(277,469)**	(344,661)
Gross profit		**108,301**	100,308
Other income, expenses, gains and losses, net	5	**7,397**	16,142
Selling and distribution expenses		**(6,659)**	(4,477)
Administrative expenses		**(26,547)**	(18,950)
Listing expenses		**(7,722)**	(1,092)
Finance costs	6	**(12,174)**	(6,630)
Profit before tax	8	**62,596**	85,301
Income tax expense	7	**(9,546)**	(13,023)
Profit for the period		**53,050**	72,278
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		**48,838**	63,994
– Non-controlling interests		**4,212**	8,284
		53,050	72,278
Earnings per share *(RMB)*	10		
– Basic		**0.06**	0.10
– Diluted		**0.06**	N/A

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		37,769	37,002
Investment properties		13,297	13,359
Intangible assets	11	1,133,720	1,022,144
Prepaid lease payments		78,648	78,141
Prepayments for prepaid lease payments		4,000	4,000
Receivables under service concession arrangements	11	754,737	761,901
Available-for-sale investments		53,630	53,630
Deferred income tax assets		6,329	5,104
		2,082,130	1,975,281
CURRENT ASSETS			
Inventories		26,165	17,395
Receivables under service concession arrangements	11	12,878	11,294
Amounts due from customers for contract works		9,516	8,470
Trade receivables	12	120,459	83,717
Prepaid lease payments		1,749	1,637
Prepayments and other receivables		13,820	29,774
Restricted bank balance	13	–	5,000
Bank balances and cash	13	719,966	526,569
		904,553	683,856
CURRENT LIABILITIES			
Borrowings	14	266,168	319,674
Trade payables	15	11,550	10,442
Advances from customers and other payables	16	290,174	319,915
Provisions	17	10,383	14,214
Current income tax liabilities		17,754	21,205
		596,029	685,450
NET CURRENT ASSETS (LIABILITIES)		308,524	(1,594)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,390,654	1,973,687

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital	18	859,710	664,310
Reserves		844,070	625,474
Equity attributable to owners of the Company		1,703,780	1,289,784
Non-controlling interests		84,789	81,489
TOTAL EQUITY		1,788,569	1,371,273
NON-CURRENT LIABILITIES			
Borrowings	14	337,255	365,609
Deferred revenue		125,191	128,639
Provisions	17	127,109	96,544
Deferred income tax liabilities		12,530	11,622
		602,085	602,414
		2,390,654	1,973,687

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the Company						
	Share capital	Capital reserve	Statutory surplus reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2017 (unaudited)							
As at 1 January 2017 (audited)	**664,310**	**242,853**	**6,018**	**376,603**	**1,289,784**	**81,489**	**1,371,273**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**48,838**	**48,838**	**4,212**	**53,050**
Issue of new ordinary shares *(Note 18)*	**195,400**	**203,595**	**–**	**–**	**398,995**	**–**	**398,995**
Listing expenses related to the issue of ordinary shares *(Note 18)*	**–**	**(33,837)**	**–**	**–**	**(33,837)**	**–**	**(33,837)**
Dividend declared by subsidiaries	**–**	**–**	**–**	**–**	**–**	**(912)**	**(912)**
As at 30 June 2017 (unaudited)	**859,710**	**412,611**	**6,018**	**425,441**	**1,703,780**	**84,789**	**1,788,569**
For the six months ended 30 June 2016 (unaudited)							
As at 1 January 2016 (audited)	600,000	175,407	1,957	254,017	1,031,381	63,876	1,095,257
Profit and total comprehensive income for the period	–	–	–	63,994	63,994	8,284	72,278
Capital contribution by shareholders *(Note 18)*	64,310	69,270	–	–	133,580	–	133,580
Capital contribution by a non-controlling shareholder of a subsidiary	–	–	–	–	–	1,640	1,640
Acquisitions of additional equity interest from non-controlling interests	–	(1,824)	–	–	(1,824)	1,824	–
As at 30 June 2016 (unaudited)	664,310	242,853	1,957	318,011	1,227,131	75,624	1,302,755

Note: Pursuant to the relevant laws in the People's Republic of China (the "**PRC**"), each of the entities established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management) to the statutory surplus reserve (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June 2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	21,290	48,486
INVESTING ACTIVITIES		
Payments for purchases of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of infrastructure	(100,850)	(200,228)
Payments for acquisitions of available-for-sale investments	–	(35,000)
Government grants received	–	1,618
Proceeds from disposal of property, plant and equipment, investment properties and prepaid lease payments	–	4,744
Release of restricted bank balance	5,000	–
Bank interest received	1,333	544
NET CASH USED IN INVESTING ACTIVITIES	(94,517)	(228,322)
FINANCING ACTIVITIES		
Capital contribution by shareholders	–	133,580
Capital contribution by a non-controlling shareholder of a subsidiary	–	1,640
Proceeds from new borrowings	135,000	210,000
Repayments of borrowings	(216,555)	(170,801)
Issue of new ordinary shares	398,995	–
Payments of interest expense	(11,715)	(13,882)
Payment of listing expenses	(30,348)	(2,929)
Dividends paid	–	(315)
Dividends paid to non-controlling shareholders of subsidiaries	(862)	(11)
NET CASH FROM FINANCING ACTIVITIES	274,515	157,282
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	201,288	(22,554)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	526,569	289,309
Effect of exchange rate changes on the balance of cash held in foreign currencies	(7,891)	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by:		
Bank balances and cash	719,966	266,755

1. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the annual financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("**IFRSs**") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements but the application may have impact on disclosures in the consolidated financial statements for the year ending 31 December 2017.

3. REVENUE

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tap water supply		
– Tap water	**97,790**	81,167
– Installation and maintenance services	**67,726**	61,538
– Construction and upgrade services of tap water supply infrastructure	**131,688**	114,337
	297,204	257,042
Wastewater treatment		
– Operating service	**70,462**	53,463
– Interest income on receivables under service concession arrangements	**17,897**	10,202
– Construction and upgrade services of wastewater treatment infrastructure	**207**	124,262
	88,566	187,927
	385,770	444,969

4. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("**CODM**"), during the period, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply and related construction, installation and maintenance services
- Wastewater treatment – provision of wastewater treatment service and related construction service

The tap water supply segment includes the Company and its subsidiaries mainly providing tap water supply and related construction, installation and maintenance services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, "Tap water supply segment", because, in the opinion of the directors of the Company (the "**Directors**"), they have similar economic characteristics and provide tap water supply and related construction, installation and maintenance services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

4. SEGMENT INFORMATION (continued)

Segment revenue and results

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**97,790**	81,167
– Installation and maintenance services	**67,726**	61,538
– Construction and upgrade services of tap water supply infrastructure	**131,688**	114,337
– Inter-segment sales		
– Tap water	**144**	79
Wastewater treatment		
– From external customers		
– Operating service	**70,462**	53,463
– Interest income on receivables under service concession arrangements	**17,897**	10,202
– Construction and upgrade services of wastewater treatment infrastructure	**207**	124,262
Elimination*	**(144)**	(79)
Revenue	**385,770**	444,969
Segment results		
– Tap water supply	**17,771**	40,314
– Wastewater treatment	**43,001**	33,056
Unallocated expenses	**(7,722)**	(1,092)
Profit after tax	**53,050**	72,278

* Inter-segment sales for the six months ended 30 June 2016 and 2017 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 profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

4. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Segment assets		
– Tap water supply	1,873,575	1,512,283
– Wastewater treatment	1,113,148	1,127,716
Unallocated corporate assets	–	19,178
Elimination	(40)	(40)
Consolidated total assets	2,986,683	2,659,137
Segment liabilities		
– Tap water supply	675,494	699,710
– Wastewater treatment	522,431	579,998
Unallocated corporate liabilities	229	8,196
Elimination	(40)	(40)
Consolidated total liabilities	1,198,114	1,287,864

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly other than unallocated corporate assets (representing deferred listing expenses) and unallocated corporate liabilities (representing listing expenses payable).

4. SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Customer A		
– Operating service	**57,011**	36,529
– Interest income on receivables under service concession arrangements	**14,021**	6,253
– Construction and upgrade services of wastewater treatment infrastructure	**207**	124,262
Customer B		
– Construction and upgrade services of tap water supply infrastructure	**113,994**	105,732

5. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**1,333**	544
Deferred revenue in respect of government grants recognised	**3,448**	3,947
Value-added-tax ("**VAT**") refunds *(Note (a))*	**9,874**	5,686
Commission income on garbage fees collected for government bureau	**35**	490
Late charges on tap water users	**1,148**	1,207
Rental income less outgoings	**301**	407
Gains on disposal of property, plant and equipment, net	**–**	956
Gain on disposal of prepaid lease payments	**–**	654
Gain on disposal of investment properties	**–**	1,746
Impairment losses on trade and other receivables	**(198)**	(366)
Sewage charges	**(116)**	–
Foreign exchange losses, net	**(7,586)**	–
Donations	**(204)**	(44)
Others *(Note (b))*	**(638)**	915
	7,397	16,142

5. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET (continued)

Notes:

a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards prescribed.

b. Others mainly include water quality inspection fees and related costs, gains or losses on sale of sanitaryware and other materials, etc.

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank borrowings	**11,549**	11,304
Interest on other borrowings	**166**	2,578
Unwinding of the discount *(Note 17)*	**2,714**	1,774
	14,429	15,656
Less: Amount capitalised in qualified assets	**(2,255)**	(9,026)
	12,174	6,630

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**9,863**	10,021
Deferred tax	**(317)**	3,002
Total income tax recognised in profit or loss	**9,546**	13,023

The Group entities are subject to PRC Enterprise Income Tax ("**EIT**") at 25% during the six months ended 30 June 2017 (Six months ended 30 June 2016: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	Financial periods
The Company*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ("**Beijiao Water**")*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) *	15%	Six months ended 30 June 2016 and 2017
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.)*	15%	Six months ended 30 June 2016 and 2017
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("**Sitong Design**")**	10%	Six months ended 30 June 2016 and 2017

* According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. The aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business is expected to account for more than 70% of their total revenue for the year ending 31 December 2017, and therefore enjoy the preferential EIT rate of 15% for the period.

** Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the three years ending 31 December 2017, small scale and low profit margin companies with annual taxable income of less than RMB200,000 (inclusive of RMB200,000) shall be subject to a EIT rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfies the criteria of a small-scale and low profit-margin company, it shall be eligible for the preferential effective tax rate of 10%.

8. PROFIT BEFORE TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**2,068**	3,419
Depreciation of investment properties	**224**	242
Amortisation of intangible assets	**20,319**	12,360
Amortisation of prepaid lease payments	**845**	754
Staff costs:		
– Salaries, wages and welfare	**45,569**	34,044
– Retirement benefit schemes contributions	**8,975**	7,135
Total staff costs	**54,544**	41,179
and after crediting:		
Gross rental income from investment properties	**457**	555
Less: Direct operating expenses incurred for investment properties that generated rental income	**(156)**	(148)
	301	407

9. DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: (unaudited) Nil).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Profit attributable to the owners of the Company *(RMB'000)*	**48,838**	63,994
Weighted average number of ordinary shares issued *('000)*	**763,629**	617,668

During the six months ended 30 June 2017, the computation of diluted earnings per share does not assume the exercise of the over-allotment option granted by the Company in relation to the Global Offering (as defined in note 18(b)) because the exercise price of the over-allotment option was higher than the average market price for the Company's shares during the life of the over-allotment option.

No diluted earnings per share is presented for the six months ended 30 June 2016 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

11. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "**Service Concession Period**"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

11. SERVICE CONCESSION ARRANGEMENTS (continued)

The Group's intangible assets represent operating concession in respect of tap water supply and wastewater treatment service are as follows:

	RMB'000
Cost	
At 31 December 2016 (audited)	1,151,207
Addition	131,895
At 30 June 2017 (unaudited)	**1,283,102**
Accumulated amortisation	
At 31 December 2016 (audited)	(129,063)
Amortisation for the period	(20,319)
At 30 June 2017 (unaudited)	**(149,382)**
Carrying amounts	
At 30 June 2017 (unaudited)	**1,133,720**
At 31 December 2016 (audited)	1,022,144

The intangible assets of the Group are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

Included in the intangible assets of the Group as at 30 June 2017 of RMB366.8 million (31 December 2016: (audited) RMB239.4 million) are intangible assets recognised under service concession arrangements that have yet to be in operation and have been allocated to individual cash generating units ("**CGUs**") in tap water supply and wastewater treatment segments.

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the CGUs as at 31 October 2016 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging 13.7% to 16.8% per annum. No growth on cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff; CGUs' past performance and management's expectation for the forecast growth in usage of tap water from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable and have no significant changes during the period. With reference to the estimation of the recoverable amounts of the CGUs calculated as mentioned above, the Directors opined that there is no impairment of any of its CGUs containing the Group's intangible assets as at 30 June 2017.

11. SERVICE CONCESSION ARRANGEMENTS (continued)

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements are as follows:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Non-current portion	754,737	761,901
Current portion	12,878	11,294
	767,615	773,195
Expected collection schedule is analysed as follows:		
Within one year	12,878	11,294
More than one year, but not exceeding two years	15,645	14,493
More than two years, but not exceeding three years	17,565	16,821
More than three years, but not exceeding four years	18,739	18,325
More than four years, but not exceeding five years	19,598	19,163
Over five years	683,190	693,099
	767,615	773,195

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% (31 December 2016: (audited) 3.51% to 6.00%) per annum. Given (i) the counterparties in the Group's receivables under service concessions arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments in the past; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment and no impairment in the Group's receivables under service concessions arrangements during the period. While the Directors consider the credit risk is minimal, the collection of receivables under services concession arrangements is closely monitored by the Directors in order to minimise any credit risk associated with the receivables.

12. TRADE RECEIVABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Trade receivables	121,994	85,135
Less: Impairment	(1,535)	(1,418)
	120,459	83,717

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment customers.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for doubtful debts:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Within 3 months	76,192	50,661
Between 4 months and 6 months	38,303	4,133
Between 7 months and 12 months	3,161	2,609
Over 1 year	2,803	26,314
	120,459	83,717

Trade receivables disclosed below are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. TRADE RECEIVABLES (continued)

Age of trade receivables that are past due but not impaired is analysed as follows:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Overdue by:		
Within 3 months	42,028	6,076
Between 4 months and 6 months	2,746	2,609
Between 7 months and 12 months	437	–
Over 1 year	2,803	26,314
	48,014	34,999

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of the reporting period.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds could be recovered. The Group does not hold any collateral over these balances.

13. RESTRICTED BANK BALANCE, BANK BALANCES AND CASH

As at 31 December 2016, the restricted bank balance was deposited with a bank for issuing a performance bond and was released in May 2017.

As at 30 June 2017, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.00% (31 December 2016: (audited) from 0.30% to 1.00%) per annum.

14. BORROWINGS

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Unsecured bank borrowings without corporate guarantee *(Note (a))*	**205,000**	220,000
Unsecured bank borrowings with corporate guarantee *(Note (b))*	**193,750**	260,000
Secured bank borrowings *(Note (c))*	**134,000**	134,000
Unsecured other borrowing *(Note (d))*	**4,673**	5,283
Unsecured other borrowing with corporate guarantee *(Note (e))*	**66,000**	66,000
	603,423	685,283
Carrying amount repayable:		
Within one year or on demand	**266,168**	319,674
More than one year, but not exceeding two years	**70,668**	64,674
More than two years, but not more than five years	**150,587**	165,935
More than five years	**116,000**	135,000
	603,423	685,283
Less: Amount shown under current liabilities	**(266,168)**	(319,674)
Non-current portion	**337,255**	365,609

Notes:

(a) As at 31 December 2016, included in the unsecured bank borrowings is a bank borrowing of RMB10,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.35% to 4.57% per annum. These bank borrowings are repayable from March 2017 to December 2017.

As at 30 June 2017, included in the unsecured bank borrowings is a bank borrowing of RMB70,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.35% to 4.57% per annum. These bank borrowings are repayable from August 2017 to March 2018.

(b) (i) As at 31 December 2016, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000, RMB40,000,000 and RMB90,000,000 bearing interest at a fixed rate of 4.57% per annum, a floating rate of 4.57% per annum and a floating rate of 5.15% per annum, respectively, repayable in May 2017, March 2017 and by instalments till December 2024 and their repayments are guaranteed by the group companies at nil consideration, the remaining bank borrowings represent a bank borrowing which bears interest at a floating rate of 5.64% per annum, is repayable by instalments from June 2017 to December 2021 and its repayment is jointly guaranteed by the Company and 瀘州市興瀘投資集團有限公司 (Luzhou Xinglu Investment Group Co., Ltd.), the Company's immediate holding company at nil consideration. The unsecured bank borrowing is repayable by instalments from June 2017 to December 2021.

(ii) As at 30 June 2017, the unsecured bank borrowings included bank borrowings of RMB10,000,000, RMB90,000,000 and RMB93,750,000 which bear interest at floating rates of 4.79% per annum, 5.15% per annum and 5.64% per annum, respectively, and are repayable in February 2018, by instalments till December 2024 and by instalments from December 2017 to December 2021. Their repayments are guaranteed by the group companies at nil consideration.

14. BORROWINGS (continued)

Notes: (continued)

(c) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and bear interest at a floating rate of 4.90% (as at 31 December 2016: (audited) 4.90%) per annum as at 30 June 2017. The repayments of these bank borrowings as at 31 December 2016 and 30 June 2017 are guaranteed by the Company's immediate holding company and the Company, respectively, at nil consideration. These secured bank borrowings are repayable by instalments from December 2017 to December 2030.

(d) The other borrowing represents a borrowing from The World Bank for financing the Group's construction of tap water supply infrastructure that bears interest at floating rates ranging from 1.11% to 1.85% per annum and is repayable by instalments till August 2021.

(e) The other borrowing represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., which bears interest at a fixed rate of 1.2% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.

15. TRADE PAYABLES

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

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Within 6 months	**7,466**	7,599
Between 7 months and 12 months	**2,425**	677
Over 1 year	**1,659**	2,166
	11,550	10,442

The credit period on purchases are generally within 6 months.

16. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Advances from customers	67,669	52,677
Wages and welfare payable	19,242	19,731
Other taxes payable	4,748	4,116
Construction payables and deposits received	139,335	172,313
Payables for purchases of wastewater treatment plants	9,386	9,386
Listing expenses payable	229	8,196
Payables to governmental bureau	37,226	42,365
Dividends payable to minority shareholders of the subsidiaries	50	–
Other payables	12,289	11,131
	290,174	319,915

17. PROVISIONS

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
At beginning of the period/year	110,758	73,582
Provisions recognised	31,127	44,210
Unwinding of discount and effect of change in the discount rates	2,714	3,605
Payments	(7,107)	(10,639)
At end of the period/year	137,492	110,758
Less: Amount classified as current liabilities	(10,383)	(14,214)
Non-current portion	127,109	96,544

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities to specified level of serviceability and/or to restore the plants to a specified condition during the service concession periods. These contractual obligations to maintain or restore the facilities, except for any upgrade elements, are recognised and measured in accordance with IAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The applicable discount rates as at 30 June 2017 is 4.90% (as at 31 December 2016: (audited) 4.90%) per annum.

18. SHARE CAPITAL

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Registered, issued and fully paid:		
At beginning of the period/year	**664,310**	600,000
Capital injections *(Note (a))*	**–**	64,310
Issue of new ordinary shares *(Note (b))*	**195,400**	–
At end of the period/year	**859,710**	664,310

	'000 (unaudited)	'000 (audited)
Shares of RMB1 each		
– Domestic shares	**644,770**	664,310
– H shares	**214,940**	–
	859,710	664,310

Notes:

(a) In May 2016, 57,290,000 and 7,020,000 new ordinary shares were issued at RMB2.077 to 瀘州市基礎建設投資有限公司 (Luzhou Infrastructure Investment Co., Ltd.) and 瀘州老窖集團有限責任公司 (Luzhou Lao Jiao Group Co., Ltd.), respectively, of which, RMB64,310,000 and RMB69,270,000 were credited as fully paid-up share capital of the Company and capital reserve of the Company, respectively.

(b) On 31 March 2017, 195,400,000 of new ordinary H shares of RMB1 each of the Company were issued at a price of HK$2.30 (equivalent to RMB2.04) each, together with the then 19,540,000 ordinary shares in issue (which were converted from domestic shares into H shares), by way of global offering (the "Global Offering"). The proceeds of HK$220,095,000 (equivalent to RMB195,400,000) representing the nominal value of the new ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of approximately HK$229,325,000 (equivalent to approximately RMB203,595,000), before issuing expenses of RMB33,837,000, were credited to the Company's capital reserve.

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 Stock Exchange of Hong Kong Limited.

19. OPERATING LEASES

As lessee

As at 30 June 2017, the Group had commitments for future minimum lease payments under a non-cancellable operating lease in respect of properties which fall due as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**5**	12
In the second to fifth year, inclusive	**5**	–
Over five years	**5**	–
	15	12

As lessor

All of the Group's investment properties are held for rental purposes. They are expected to generate rental on an ongoing basis. All of the properties held have committed tenants for the next 1 to 5 years.

As at 30 June 2017, the Group had contracted with tenants for the following future minimum lease payments:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within one year	**845**	141
In the second to fifth year, inclusive	**430**	338
	1,275	479

20. CAPITAL COMMITMENTS

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Capital expenditure contracted but not provided for constructing and upgrading infrastructure	**155,909**	163,440

21. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2017, the Group had no major non-cash transaction.

In May 2016, the Company acquired additional 22.09% of equity interest in Beijiao Water from non-controlling interests by transferring certain tap water supply infrastructure at carrying amount of RMB80,377,000 to Beijiao Water.

22. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("**government-related entities**").

During the period, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, wastewater treatment operating services, construction and other services. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its pricing strategy and approval process for purchase and sales of products and services. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

22. RELATED PARTY TRANSACTIONS (continued)

Other than the transactions and balances with related parties disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following transactions with the Company's immediate holding company, fellow subsidiaries and other related parties during the period:

	Notes	**Related parties**	**Six months ended 30 June** **2017** ***RMB'000*** **(unaudited)**	2016 *RMB'000* (unaudited)
Tap water supply	(i)	Shareholders and fellow subsidiaries	**1,326**	578
Installation service income received	(ii)	Shareholders and fellow subsidiaries	**4,946**	11,983
Water quality testing income	(iii)	A shareholder and fellow subsidiaries	**51**	–
Property management fees	(iv)	A fellow subsidiary	**(1,964)**	(1,485)
Interest expense of the Company	(v)	Immediate holding company	**–**	(2,568)
Sales of properties	(vi)	A fellow subsidiary	**–**	564
Sales of investment properties	(vi)	Fellow subsidiaries	**–**	2,754
Sales of prepaid lease payments	(vi)	A fellow subsidiary	**–**	724
Purchases of properties	(vi)	A fellow subsidiary	**–**	(525)

Notes:

(i) Tap water supply was conducted in accordance with the relevant agreements.

(ii) Installation service was conducted in accordance with the terms of relevant agreements.

(iii) Water quality testing service was conducted in accordance with the terms of relevant agreements.

(iv) Property management service was conducted in accordance with the terms of relevant agreements.

(v) Interest expense arose from borrowings from the Company's immediate holding company.

(vi) These transactions were conducted in accordance with the terms of relevant agreements.

22. RELATED PARTY TRANSACTIONS (continued)

In addition to the above, the Group also had the following transactions with related parties:

(a) During six months ended 30 June 2017 and 2016, the immediate holding company of the Company provided guarantees to banks, at nil consideration, for granting borrowings to the Group.

(b) During six months ended 30 June 2017 and 2016, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

(c) The short term benefits paid or payable by the Group to the Directors, the supervisors of the Company and other members of key management personnel during the six months ended 30 June 2017 amounted to approximately RMB867,000 (six months ended 30 June 2016: (unaudited) RMB650,000).

23. EVENT AFTER THE REPORTING PERIOD

On 16 August 2017, the Company initiated the project of the construction of Naxi Supply Plant (Phase I).