



**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)

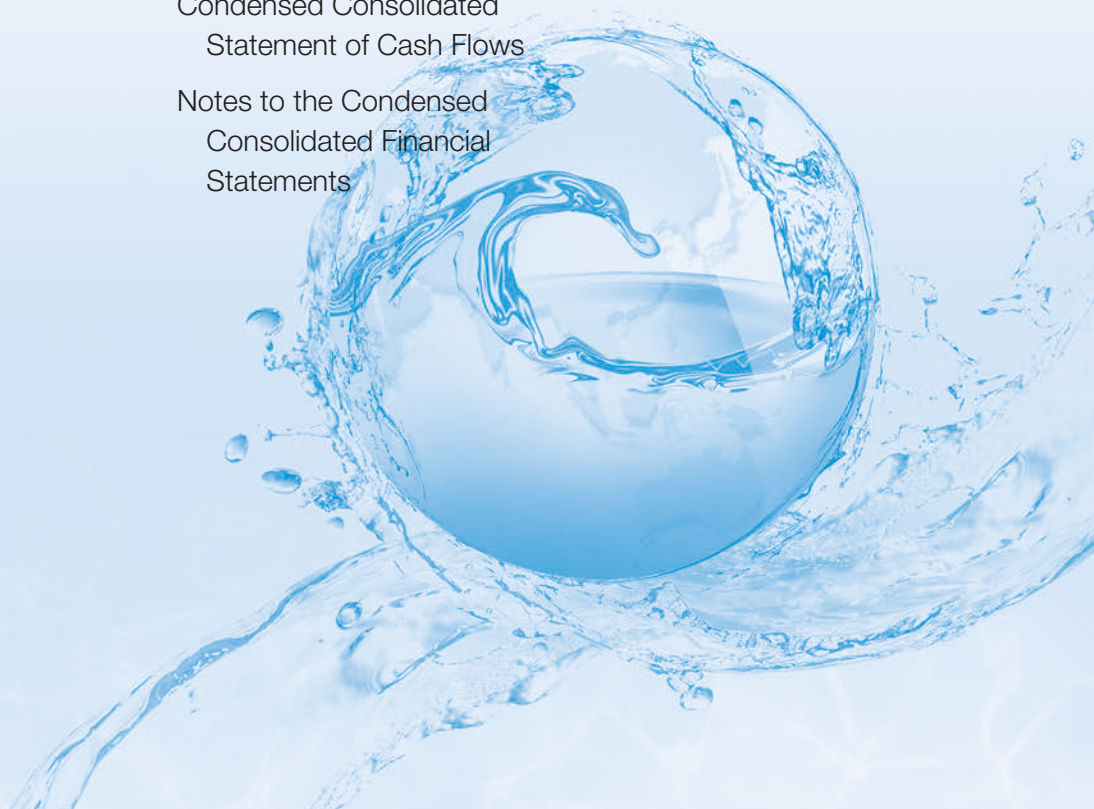
Stock Code: 2281

**2019** INTERIM  
REPORT

\* For identification purposes only

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# Chapter I 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)  
Ms. Xu Yan (徐燕女士)  
Mr. Xie Xin (謝欣先生)

### 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. Xie Xin (謝欣先生)

## 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)

## JOINT 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:

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

## DOMESTIC SHARE REGISTRAR:

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

## H SHARE REGISTRAR:

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre, 183 Queen's Road East  
Wanchai, Hong Kong



**LEGAL ADVISER:**

**As to Hong Kong law:**

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**PRINCIPAL BANKERS:**

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

**INTERNATIONAL AUDITOR:**

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

**STOCK CODE:**

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**COMPANY WEBSITE:**

[www.lzss.com](http://www.lzss.com)

## Chapter II Definitions

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Enterprises Water Group”	Beijing Enterprises Water Group Limited (北控水務集團有限公司), one of our Shareholders, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 371)
“Beijiao Water”	Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.* (瀘州市興瀘水務(集團)北郊水業有限公司), a PRC limited liability company established on 25 March 2004, and a subsidiary of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“Company” or “Group” or “us” or “we”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC, converted by Xinglu Water Company Limited (a limited liability company established on 31 July 2002) on 25 December 2015, which includes its predecessor and subsidiaries as required by the context
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Fanxing Environmental”	Luzhou Fanxing Environmental Protection and Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a PRC limited liability company established on 18 August 2016, and a subsidiary of the Company
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in HKD and are listed on the Main Board of the Hong Kong Stock Exchange

## Chapter II Definitions (Continued)

“HKD” or “HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IPO”	the initial public offering of the Company’s H Shares through the main board of the Hong Kong Stock Exchange on 31 March 2017
“Jiangnan Water”	Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.* (瀘州市興瀘水務集團江南水業有限公司), a PRC limited liability company established on 7 March 2003, and a subsidiary of the Company
“Leshan Xingjia”	Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.* (樂山市興瀘水務興嘉環保科技有限公司), a PRC limited liability company established on 28 December 2018, and a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Luzhou Infrastructure”	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), a PRC limited liability company established on 29 May 2001, one of our Shareholders
“Luzhou Laojiao”	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), a PRC limited liability company established on 21 December 2000, one of our Shareholders
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“PRC” or “China”	the People’s Republic of China, and for the purpose of this interim report only, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus dated 21 March 2017 in relation to the initial public offering of H Shares

## Chapter II Definitions (Continued)

“Reporting Period”	the period for the six months starting from 1 January 2019 to 30 June 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
“Shareholder(s)”	holder(s) of the Share(s)
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“US\$”	the lawful currency of the United States of America
“Weiyuan Installation Company”	Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.* (威遠城市供排水安裝工程有限公司), a PRC limited liability company established on 5 November 2007, and a subsidiary of the Company
“Weiyuan Qingxi Water”	Weiyuan Qingxi Water Co., Ltd.* (威遠清溪水務有限公司), a PRC limited liability company established on 30 December 2004, and a subsidiary of the Company
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), a PRC limited liability company established on 28 January 2003, our Controlling Shareholder
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a PRC limited liability company established on 11 December 2000, and a subsidiary of the Company
“%”	per cent

## Chapter III Financial Highlights

The Board is pleased to announce the following financial highlights:

### 1. CONSOLIDATED RESULTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue	<b>828,407</b>	567,809
Profit before tax	<b>113,435</b>	79,316
Income tax expense	<b>(13,982)</b>	(10,132)
Profit for the period	<b>99,453</b>	69,184
Total comprehensive income for the period attributable to:		
– Owners of the Company	<b>93,811</b>	66,500
– Non-controlling interests	<b>5,842</b>	3,804
Return on shareholders' interests ( <i>Note</i> )	<b>5.0%</b>	3.7%
Basic earnings per share ( <i>RMB</i> )	<b>0.11</b>	0.08

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

### 2. CONSOLIDATED ASSETS AND LIABILITIES

	At 30 June	At 31 December
	2019	2018
	RMB'000	RMB'000
Total assets	<b>4,992,995</b>	3,811,837
Total liabilities	<b>(2,963,565)</b>	(1,854,926)
Total equity	<b>2,029,430</b>	1,956,911
Equity attributable to owners of the Company	<b>1,922,263</b>	1,880,035
Non-controlling interests	<b>107,167</b>	76,876

As at the end of the Reporting Period, the Group's unaudited profit attributable to owners of the Company amounted to approximately RMB93.6 million. Basic earnings per share of the Group during the Reporting Period were approximately RMB0.11. The Board did not recommend the payment of interim dividends for the six months ended 30 June 2019.



# Chapter IV Management Discussion and Analysis

## (I) INDUSTRY OVERVIEW

The 19th National Congress proposed the strategic development plan of “acceleration of reform of ecological civilization for building a beautiful China”, which led the environmental protection and water treatment industry to enter into a new era for development. On 29 April 2019, “Three-year Action Plan (2019–2021) for Improving the Quality and Efficiency of Urban Sewage Treatment” was issued by the Ministry of Housing and Urban-Rural Development, Ministry of Ecology and Environment and National Development and Reform Commission, whose core is to accelerate the renovation and construction on facilities for collecting and handling domestic sewage, and to strengthen the government’s implementation responsibility. The plan is helpful for cracking the key knots of urban sewage treatment and brings new opportunities for urban sewage treatment projects of water enterprises. On 3 July 2019, nine governmental sectors, including the Central Agricultural Office, the Ministry of Agriculture and Rural Affairs, the Ministry of Ecology and Environment, and the Ministry of Housing and Urban-Rural Development, jointly issued the “Guiding Opinions on Promoting the Treatment of Rural Domestic Sewage” (“**Guiding Opinions**”), in which it clearly identified tasks of coordinating and promoting domestic sewage treatment, and scientifically and rationally proposed the overall requirements for the treatment of rural domestic sewage in China. Therefore, the Guiding Opinions pointed out the scientific direction of action and development path for local governments at all levels and environmental protection enterprises. It also brings opportunities for the drainage business and quality improvement of water companies.

At present, there is still a large gap between the wastewater treatment rate of national towns and the targets in the 13th Five-Year Plan. This situation is even more severe in rural areas as a result of their inadequate wastewater treatment capacity. According to the “13th Five-Year Plan for the National Construction of Urban Sewage Treatment and Recycling Facilities”, investment of RMB564.4 billion will be used in the construction of urban sewage treatment and recycling facilities that remains a key investment area during the “13th Five-Year Plan” period. This will enable water enterprises to keep up with national strategies, identify gaps and seize investment opportunities to bring development opportunities.

## (II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2019, the Company will continue to maintain its strategic position as “standing firm in the primary business of water supply, stretching its businesses in the industry chain, expanding the environmental protection business, and building the core technology”. Striving for external expansion and internal management, the Company will maintain sustainable development motivation. The Company will focus on the sustainable development ability of projects through adopting the way of “using reserves to bring improvement and using key points to lead all areas”, realizing in-depth local operations and external expansion as well as a deep and excellent development of businesses in different areas based on consolidating the local business; capture existing advanced experience in the management of production platforms, automatic renovation and measurement by areas to commerce construction of smart enterprise for water treatment for creating the Company’s core competitiveness further; adhere to innovation-driven development, strengthen internal control standard, and improve operational capacity with enhanced profitability, promoting the Company’s development with high-speed and high-quality.

### (III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, whose business principally includes tap water supply and wastewater treatment. We adopt project models of build-own-operate (“**BOO**”) and transfer-own-operate (“**TOO**”) in the course of business, where we and local governments entered into concession agreements for a maximum period of 30 years. The Company mainly engages business in Luzhou City, Weiyuan area in Neijiang City, etc.

As at the end of the Reporting Period, we operated nine tap water plants and 50 wastewater treatment plants with a total treatment capacity of approximately 827,550 tons per day.

#### Tap Water Project

As at the end of the Reporting Period, the Group owned nine water supply concession projects with a daily supply capacity of approximately 498,500 tons, which held flat as compared with 31 December 2018. The average utilisation rate of tap water plants stood at 82.87%.

During the Reporting Period, the total sales of water amounted to approximately 61.1 million tons, representing an increase of 20.3% as compared with the sales of tap water of approximately 50.8 million tons for the six months ended 30 June 2018. The growth was mainly due to the increased scope of supply area and the business expansion resulting from the acquisition of Weiyuan Qingxi Water by the Company in September 2018.

#### Wastewater Treatment Project

As at the end of the Reporting Period, the Group owned 50 operating wastewater treatment plants with a daily treatment capacity of approximately 329,050 tons in aggregate and the average load rate of wastewater treatment plants stood at 88.04%.

During the Reporting Period, our total wastewater treatment capacity amounted to approximately 52.1 million tons, representing an increase of 51.5% as compared with the total actual wastewater treatment capacity of approximately 34.4 million tons for the six months ended 30 June 2018. Our total capacity of wastewater treatment with charges amounted to approximately 64.6 million tons, representing an increase of 54.5% as compared with the total capacity of wastewater treatment with charges of approximately 41.8 million tons for the six months ended 30 June 2018. The increase was mainly attributable to an increase in treatment volume of wastewater resulting from the expanded pollution-absorptive areas by the Company, and the significant increase in production capacity and operating load after the completion of Ya’erdang capacity expansion project.

### (IV) 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 increased by 45.9% from approximately RMB567.8 million for the six months ended 30 June 2018 to approximately RMB828.4 million during 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 31.2% from approximately RMB106.3 million for the six months ended 30 June 2018 to approximately RMB139.5 million for the Reporting Period. The increase was mainly attributable to the addition of revenue of Weiyuan Qingxi Water, a subsidiary acquired in September 2018, during the Reporting Period. Revenue generated from sales of tap water accounted for 18.7% and 16.8% of our total revenue for the six months ended 30 June 2018 and 2019, respectively.

###### 1.1.1.2 Installation services

Revenue of the Group generated from installation services decreased by 23.6% from approximately RMB163.6 million for the six months ended 30 June 2018 to approximately RMB125.0 million during the Reporting Period. The main reason for the decrease was that most of “water/power/gas supply and property” water meters renovation engineering completed in 2018, and water meters engineering for the Reporting Period declined as compared to the previous year. Revenue generated from installation and maintenance services accounted for 28.8% and 15.1% of our total revenue for the six months ended 30 June 2018 and 2019, 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 48.5% from approximately RMB161.9 million for the six months ended 30 June 2018 to approximately RMB240.5 million during the Reporting Period. The increase was mainly due to the fact that during the Reporting Period, Huangxi Water Plant Project, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project have entered into the construction stage, leading to the increase of the tap water supply infrastructure construction and upgrade projects during 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 60.3% from approximately RMB78.8 million for the six months ended 30 June 2018 to approximately RMB126.3 million during the Reporting Period. The increase was primarily due to the increase in the wastewater treatment capacity and increase in demand for wastewater treatment during the Reporting Period. During the Reporting Period, the capacity of wastewater treatment with charges also increased as compared with that for the same period of last year. The treatment volume of charged wastewater was 41.8 million tons and 64.6 million tons for the six months ended 30 June 2018 and 2019, respectively. Revenue generated from wastewater treatment operation accounted for 13.9% and 15.2% of our total revenue for the six months ended 30 June 2018 and 2019, respectively.

#### 1.1.2.2 Interest income

The Group's interest income increased by 39.4% from approximately RMB16.5 million for the six months ended 30 June 2018 to approximately RMB23.1 million during the Reporting Period. The increase was mainly due to the increase in the receivables resulting from the completion and commencement of operation of Ya'erdang capacity expansion project in August 2018, which led to the increase in the interest income of the receivables.

#### 1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure increased by 328.7% from approximately RMB40.6 million for the six months ended 30 June 2018 to approximately RMB174.0 million during the Reporting Period. The primary reason for the increase was that the Fanxing Environmental, which was newly acquired by the Group, was conducting infrastructure construction project.



### 1.2 Cost of sales and services

The Group's cost of sales and services increased by 48.6% from approximately RMB443.2 million for the six months ended 30 June 2018 to approximately RMB658.4 million during 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 5.6% from approximately RMB100.4 million for the six months ended 30 June 2018 to approximately RMB106.0 million during the Reporting Period. The increase was mainly attributable to the increase in sales cost of tap water of newly acquired Weiyuan Qingxi Water.

##### 1.2.1.2 Installation services

The cost of sales and services associated with installation services decreased by 33.7% from approximately RMB83.5 million for the six months ended 30 June 2018 to approximately RMB55.4 million during the Reporting Period. Such decrease was primarily because the reduced installation projects resulted in the reduced installation service costs during the Reporting Period.

##### 1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services generated from construction and upgrade on tap water supply infrastructure increased by 48.5% from approximately RMB161.5 million for the six months ended 30 June 2018 to approximately RMB239.8 million during the Reporting Period. Such increase was mainly due to the increase in the amount of engineering projects, including Naxi Water Plant, Huangxi Water Plant and Nanjiao Second Water Plant Phase II, and water supply pipeline network installation projects.

#### 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 45.4% from approximately RMB57.3 million for the six months ended 30 June 2018 to approximately RMB83.3 million during the Reporting Period. Such increase was mainly because of a corresponding increase in operating costs incurred from an increase in treatment volume in wastewater, and the increase in the cost of pharmacy and cleaning and transportation fees for sludge as a result of stricter environmental protection requirements. Cost of sales and services from wastewater treatment operating services accounted for 12.9% and 12.7% of our total cost of sales and services for the six months ended 30 June 2018 and 2019, respectively.

### 1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services from construction and upgrade on wastewater treatment infrastructure increased by 328.6% from approximately RMB40.6 million for the six months ended 30 June 2018 to approximately RMB174.0 million during the Reporting Period. Such increase was mainly because the projects under construction of the Group's newly acquired Fanxing Environmental led to an increase in relevant costs during the Reporting Period.

## 1.3 Gross profit and gross profit margin

As a result of above, our gross profit increased by 36.4% from approximately RMB124.6 million for the six months ended 30 June 2018 to approximately RMB170.0 million during the Reporting Period. Gross profit margin decreased from 21.9% for the six months ended 30 June 2018 to 20.5% during the Reporting Period. Such decrease was primarily because the significant rise in tap water and wastewater treatment infrastructure and upgrade works that are of lower gross profit margin reduced the comprehensive gross profit margin. However, the Company maintained a stable growth trend in gross profit margin of sales of tap water and wastewater treatment during 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 increased by 469.5% from approximately RMB5.9 million for the six months ended 30 June 2018 to approximately RMB33.6 million during the Reporting Period. The corresponding gross profit margin increased from 5.6% for the six months ended 30 June 2018 to 24.0% during the Reporting Period. Such increase was mainly due to the prominent scale effect as a result of an increase in sales, and the strengthened cost control of the Company.

#### 1.3.1.2 Installation services

The gross profit of the Group for installation services decreased by 13.1% from approximately RMB80.1 million for the six months ended 30 June 2018 to approximately RMB69.6 million during the Reporting Period. The corresponding gross profit margin increased from 49.0% for the six months ended 30 June 2018 to 55.7% during the Reporting Period. Such increase was mainly because the gross profit of "service sector moving" water meters renovation projects are generally lower than gross profit of the general water meters installation projects, and the decrease in such projects during the Reporting Period resulted in an increase in gross profit margin.

### 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 increased by 68.1% from approximately RMB401,000.0 for the six months ended 30 June 2018 to approximately RMB674,000.0 during the Reporting Period. Such increase was primarily because the Group entered into the construction of Huangxi Water Plant, Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project and pipe network construction project during the Reporting Period. The corresponding gross profit margin remained relatively stable at 0.3% and 0.3% for the six months ended 30 June 2018 and 2019, respectively.

### 1.3.2 Wastewater treatment

#### 1.3.2.1 Operating service

The gross profit of the Group for wastewater treatment operating services increased by 99.1% from approximately RMB21.6 million for the six months ended 30 June 2018 to approximately RMB43.0 million during the Reporting Period. The corresponding gross profit margin increased from 27.3% for the six months ended 30 June 2018 to 34.1% during the Reporting Period. The increase was mainly attributable to the increase in volume of charged wastewater in treatment plants including Chengdong and Chengnan, the stable operation of Ya'erdang capacity expansion project with a gradual increase in revenue, and the Group's effective control over costs.

#### 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 increased from approximately RMB34,000.0 for the six months ended 30 June 2018 to approximately RMB70,000.0 during the Reporting Period. The increase was mainly because newly acquired Fanxing Environmental was building wastewater treatment infrastructure in rural areas.

## 1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net significantly increased from approximately RMB4.2 million for the six months ended 30 June 2018 to approximately RMB16.3 million during the Reporting Period.

The increase in other income, expenses, gains and losses, net was mainly because the bank interest income for the Reporting Period increased significantly as compared with the six months ended 30 June 2018. In addition, as the balance of the Group's listed funds raised from the initial global offering (in Hong Kong dollars) decreased, the exchange loss decreased from approximately RMB8.3 million for the six months ended 30 June 2018 to approximately RMB0.2 million during the Reporting Period.

### 1.5 Distribution and Selling Expenses

The Group's selling and distribution expenses increased by 55.4% from approximately RMB5.6 million for the six months ended 30 June 2018 to approximately RMB8.7 million during the Reporting Period. The increase was primarily due to the increase in staff costs and the sales costs of Weiyuan Qingxi Water acquired in September 2018.

### 1.6 Administrative Expenses

The Group's administrative expenses increased by 39.2% from approximately RMB24.0 million for the six months ended 30 June 2018 to RMB33.4 million during the Reporting Period. The increase was mainly due to the growth in costs for staff and the rise of administrative expenses of Weiyuan Qingxi Water and Weiyuan Installation Company acquired in September 2018.

### 1.7 Finance Costs

The Group's finance costs increased by 77.4% from approximately RMB16.8 million for the six months ended 30 June 2018 to approximately RMB29.8 million during the Reporting Period, which was primarily because of a rise in interest expense incurred from the matters including the increase in borrowings, the issue of corporate bonds and the obtained financing lease payment by the Group during the Reporting Period.

### 1.8 Income Tax Expense

In line with the increase in profit before tax, the income tax expenses increased by 38.6% from approximately RMB10.1 million for the six months ended 30 June 2018 to approximately RMB14.0 million during the Reporting Period. For the six months ended 30 June 2018 and 2019, the effective tax rates of the Group were 12.8% and 12.3%, respectively.

### 1.9 Profit after Tax and Profit after Tax Margin

As a result of above, the profit after tax increased by 43.8% from approximately RMB69.2 million for the six months ended 30 June 2018 to approximately RMB99.5 million during the Reporting Period. Our profit margin after tax decreased from 12.2% for the six months ended 30 June 2018 to 12.0% during the Reporting Period.



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

#### **2.1 Property, Plant and Equipment**

The property, plant and equipment of the Group was approximately RMB39.9 million and approximately RMB40.2 million as at 31 December 2018 and the end of the Reporting Period, respectively, which consisted primarily of office buildings, machinery and office equipment, office furniture, fixtures and others. Apart from the depreciation, property, plant and equipment of the Group slightly increased from approximately RMB39.9 million as at 31 December 2018 to approximately RMB40.2 million as at the end of the Reporting Period. Such increase was mainly attributable to the increase of non-infrastructures related machines, office equipment and others. In addition, the Group acquired Fanxing Environmental and established Leshan Xingjia during the Reporting Period, leading to the increase of the machines, office equipment, fixtures and others.

#### **2.2 Intangible Assets**

The Group's intangible assets were approximately RMB1,947.2 million and approximately RMB2,189.9 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly due to the construction of engineering projects and the completion of upgrade work.

#### **2.3 Receivables under Service Concession Arrangements**

The Group's receivables under service concession arrangements were approximately RMB851.0 million and approximately RMB1,083.8 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly due to the acquisition of Fanxing Environmental during the Reporting Period, leading to the increase in receivables under the service concession arrangements.

### 2.4 Inventories

The Group's inventories (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to approximately RMB33.0 million and approximately RMB56.9 million as at 31 December 2018 and the end of the Reporting Period, respectively. The increase was mainly because the expansion of installation business of water meters during the Reporting Period led to an increase in the reserve of far passing water gauge and pipe material at the end of the Reporting Period.

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
Average inventory turnover days <sup>(1)</sup>	<b>12</b>	23

(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 of 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 and installation and maintenance services 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 23 days for the six months ended 30 June 2018 to 12 days for the Reporting Period. Such decrease was mainly due to the speeding up of inventory turnover as a result of the Group's strengthened management over inventory during the Reporting Period.

### 2.5 Trade Receivables

Trade receivables of the Group were RMB129.2 million and RMB188.0 million as at 31 December 2018 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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
Average trade receivables turnover days <sup>(1)</sup>	<b>35</b>	53

(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 and installation services 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 53 days for the six months ended 30 June 2018 to 35 days during the Reporting Period. Such decrease was primarily a result of our enhanced management policies on trade receivables collection during the Reporting Period.

### 2.6 Trade Payables

Our trade payables were RMB43.4 million and RMB50.1 million as at 31 December 2018 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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
Average trade payables turnover days <sup>(1)</sup>	<b>13</b>	19

(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 of the period (excluding 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.

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 and installation services and wastewater operating services, while our payables incurred in relation to 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 decreased from 19 days for the six months ended 30 June 2018 to 13 days during the Reporting Period. Such decrease was mainly because the Group strengthened the management of outstanding amounts and promptly paid trade payables.

## Chapter IV Management Discussion and Analysis (Continued)

### 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 2019	2018
Average trade payables and construction payables turnover days <sup>(1)</sup>	78	102

(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 of the Group decreased from 102 days for the six months ended 30 June 2018 to 78 days for the Reporting Period. Such decrease was mainly because the engineering project bore heavy tasks under a tight construction period during the Reporting Period. Therefore, the Group accelerated payments for project progress fees to ensure the successful advancement of engineering project.

### 2.8 Deferred Income – Government Grants

Deferred income – government grants of the Group was approximately RMB168.7 million and RMB164.7 million as at 31 December 2018 and the end of Reporting Period, respectively. The decrease was mainly due to the amortization on the deferred income occurred during the Reporting Period.

### 2.9 Contract Liability and Other Payables

The contract liability and other payables increased from approximately RMB532.8 million as at 31 December 2018 to approximately RMB763.8 million as at the end of the Reporting Period, which was mainly due to the increase in contract liabilities as a result of the increase in water meters installation projects of the Group during the Reporting Period, and the increase in construction payables of various tap water supply projects (including Naxi Water Plant, Nanjiao Second Water Plant Phase II and the overall district water supply project, etc.) and wastewater treatment projects (including the Erdaoxi Project Phase III).



### 3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities of the Group will be able to carry out sustainable businesses and optimize the debt and equity balance to maximise the return to shareholders of the Company (the “**Shareholders**”). 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 the Reporting Period, the cash and cash equivalents of the Group amounted to approximately RMB1,012.4 million (31 December 2018: RMB547.7 million).

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB2,173.5 million (31 December 2018: RMB1,621.0 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB1,195.5 million (31 December 2018: RMB844.4 million), including bank and other borrowings. Approximately 70.9% of our bank and other borrowings bears interest at floating rates.

As at the end of the Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was 9.0% (31 December 2018: 15.2%).

As at the end of the Reporting Period, the asset-to-debt ratio of the Group (calculated by net debts divided by total capital) decreased from approximately 37.4% as at 31 December 2018 to approximately 13.5% as at the end of the Reporting Period. The decrease in asset-to-debt ratio was mainly due to the increase in utilizable bank deposits during the Reporting Period.

The Company has successfully issued the first trench 5-year RMB500 million corporate bonds with a coupon rate of 5.99% per annum. Please refer to Note 22 in the notes to the condensed consolidated financial statements in the interim report for details of corporate bonds.

### (V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 877 employees (31 December 2018: 849 employees). During the Reporting Period, employee salaries and benefits expenses amounted to RMB73.3 million (six months ended 30 June 2018: RMB65.9 million). The remunerations and benefits for employees include basic and floating wages, bonuses and staff benefits. The Group endeavours to keep the level of employees’ remuneration in line with industry practices and prevailing market conditions, and such remuneration will be determined based on their performance. The Group also provides external and internal training programs for the employees.

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

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

The Company was listed on the Hong Kong Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with par value of RMB1.00 each had been issued at the price of HK\$2.30 per share with net proceeds received from the issuance of approximately HK\$400.8 million. As at the end of the Reporting Period, approximately HK\$394.7 million of the proceeds had been used by the Group as disclosed in the Prospectus and approximately HK\$6.1 million of the proceeds had not yet been used.

Use of proceeds	Amount <i>HK\$ million</i>	Amount used <i>HK\$ million</i>	Amount unused <i>HK\$ million</i>
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	33.98	6.1
Total	<u>400.80</u>	<u>394.70</u>	<u>6.1</u>

**(VII) MAJOR ACQUISITIONS/DISPOSAL AND INVESTMENTS**

On 27 February 2019, the Company separately entered into an equity transfer agreement with Luzhou Xingxin Water Environmental Governance Co. Ltd. (瀘州市興新水環境治理有限公司) and Luzhou Tianrun Industrial Development Investment Fund Partnership (Limited Partnership) (瀘州市天潤產業發展投資基金合夥企業(有限合夥)), pursuant to which, the Company agreed to acquire an aggregate of 92.50% equity interest in Fanxing Environmental at a total consideration of RMB117.0 million. Upon completion of such equity transfers, Fanxing Environmental became a direct non-wholly owned subsidiary of the Company and its results would be consolidated into the consolidated financial statements of the Group. Please refer to the announcement issued by the Company on 27 February 2019 for details.

Save as disclosed above, during the Reporting Period, the Company has no other arrangements for major investments or acquisition/disposal of capital assets.

**(VIII) PLEDGES OF THE GROUP'S ASSETS**

As at the end of the Reporting Period, there were some bank borrowings of the Group were secured by certain tap water supply infrastructure of the Group, the operating concessions for overall district water supply projects in Jiangyang District, the land-use rights owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for certain wastewater treatment fees and charging right for certain buildings and tap water plants of Weiyuan Qingxi Water and wastewater treatment projects of Fanxing Environmental in township and rural area in Jiangyang District, Luzhou City.

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

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

During the Reporting Period, the Group carried out business in the PRC and receives revenue and pays its costs/ expenses in RMB. The Group has a borrowing from The World Bank denominated in US dollar and unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognised net foreign exchange losses of RMB0.2 million at the end of the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

### **(X) CONTINGENT LIABILITIES**

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

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

As at the end of the Reporting Period, the available-for-sale investments held by the Group amounted to RMB57.54 million (31 December 2018: RMB57.27 million), which represent the Group's equity investments of 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. Such investments do not have quoted market prices in an active market, and their fair values cannot be reliably measured.

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

As of the date of this report, the Group did not have any important events after the Reporting Period.

### **1. INTERIM DIVIDENDS**

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

### **2. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the Reporting Period, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

### **3. PRE-EMPTIVE RIGHTS**

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

### **4. CHANGE IN DIRECTORS', SUPERVISORS' AND THE SENIOR MANAGEMENT'S INFORMATION**

As at the end of the Reporting Period, there were no changes of information of Directors, Supervisors and senior management of the Company.

### **5. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS**

During 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 or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights.

### **6. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS**

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



### **7. INTERESTS AND SHORT POSITIONS 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 or chief executive of the Company had any interests and/or short positions in the Shares, underlying Shares (in respect of positions held pursuant to equity derivatives) or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Hong Kong 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 to be notified to the Company and Hong Kong Stock Exchange.

### **8. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Group is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Group and balancing the interests of the Shareholders, customers and employees of the Group.

The Company has adopted the Corporate Governance Code, and formulated a series of corporate governance policies according to the relevant requirement to build up and perfect the corporate governance structure.

According to code provision A.4.2 of the Corporate Governance Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Articles of Association, the terms of Directors (including non-executive Director and independent Director) are three years, but extendible by election. The term of the first session of the Board, the board of Supervisors and the senior management has expired in December 2018. As (among others) some of the Directors were required to be nominated by the Shareholders, while the nomination procedure has not been completed and some of the Director candidates are still under consideration, the Company was unable to complete the transition before the end of the first session. Before the completion of transition, the existing Directors, the Supervisors and senior management of the Company will continue to perform their duties.

During the Reporting Period, save for code provision A.4.2 of the Corporate Governance Code, the Company has complied with all code provisions of the Corporate Governance Code.

### **9. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and the Supervisors. The Company has made specific inquiries to all the Directors and Supervisors of the Company, and all the Directors and Supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period.

## 10. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

To the best knowledge of the Company, as at the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests 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 Hong Kong 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, or owned interest and short positions in more than 5% of any class of issued shares of the Company.

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment <sup>(2)</sup>	Beneficial owner	Domestic Shares	511,654,127 (L)	79.35%	59.51%
	Interest in a controlled corporation	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Luzhou Laojiao	Beneficial owner	Domestic Shares	70,406,310 (L)	10.92%	8.19%
Luzhou Infrastructure <sup>(2)</sup>	Beneficial owner	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Beijing Enterprises Water Group <sup>(3)</sup>	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited <sup>(3)</sup>	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited <sup>(3)</sup>	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. <sup>(4)(7)</sup>	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%

## Chapter V Other Information (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Suntront Intelligence (Hong Kong) Co., Limited <sup>(5)</sup>	Beneficial owner	H Shares	16,884,000 (L)	7.85%	1.96%
Suntront Technology Co., Ltd. <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Fei Zhanbo <sup>(5)</sup>	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd.* (瀘州向陽房地產開發有限公司) <sup>(6)(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬) <sup>(7)</sup>	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd. <sup>(7)</sup>	Trustee	H Shares	77,787,000 (L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	19,247,000 (L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) <sup>(7)</sup>	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%

## Chapter V Other Information (Continued)

- (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. 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.
- (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) Suntront Technology Co., Ltd. has 100% interests in Suntront Intelligence (Hong Kong) Co., Limited. Fei Zhanbo holds 35.70% interest in Suntront Technology Co., Ltd. Therefore, pursuant to the SFO, Suntront Technology Co., Ltd. and Fei Zhanbo are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Limited.
- (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. (瀘州向陽房地產開發有限公司). 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; 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 77,787,000 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 (20-14 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 Hong Kong 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 executive 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 Hong Kong 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.

### 11. SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the minimum public float required by the Listing Rules during the Reporting Period.

### 12. COMPLIANCE WITH NON-COMPETITION AGREEMENT

Xinglu Investment (our Controlling Shareholder) signed a non-competition agreement (the “**Non-competition Agreement**”) in favour of the Company on 10 March 2017. Pursuant to the Non-competition Agreement, Xinglu Investment has irrevocably undertaken to the Company that it would not, and would procure that its subsidiaries would not, directly or indirectly, engage in any relevant business that may be in competition with the Company. 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 include but not limited to tap water supply and wastewater treatment services. For details, please refer to the section headed “Relationship with our Controlling Shareholder” in the Prospectus.

The independent non-executive Directors have reviewed the information provided by Xinglu Investment regarding compliance with the Non-competition Agreement and determined that Xinglu Investment had fully complied with and was not in breach of the Non-competition Agreement during the Reporting Period.

### 13. SHARE OPTION SCHEME

The Company had no share option scheme.

### 14. SIGNIFICANT LEGAL PROCEEDINGS

As at the end of the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration, and the Directors are not aware of any legal proceedings or claims of material importance pending or threatened against the Company at the end of the Reporting Period.

### 15. 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. Xie Xin, 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 Hong Kong Stock Exchange.

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



## 16. REVIEW OF INTERIM REPORT

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 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. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 and the interim report have also been reviewed by the Audit Committee.

## 17. THE BOARD OF DIRECTORS

As at the end of the Reporting Period, the Board of the Company comprises Mr. Zhang Qi (chairman), Mr. Liao Xingyue and Mr. Wang Junhua, as executive Directors, Mr. Chen Bing, Ms. Xu Yan and Mr. Xie Xin as non-executive Directors, and Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick, as independent non-executive Directors.

## 18. ACKNOWLEDGEMENT

Finally, I would like to take this opportunity to express my sincere gratitude to the Shareholders, customers, employees and corporate partners for their constant support and contribution to the development of the Group.

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

Luzhou, the PRC  
28 August 2019

# Report on Review of Condensed Consolidated Financial Statements

# Deloitte.

# 德勤

**TO THE BOARD OF DIRECTORS OF LUZHOU XINGLU WATER (GROUP) CO., LTD.**

**瀘州市興瀘水務(集團)股份有限公司**

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

## 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 76, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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**”) issued by the International Accounting Standards Board. 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” 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.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 August 2019

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended	
		30/06/2019 RMB'000 (unaudited)	30/06/2018 RMB'000 (unaudited)
Revenue	3		
Tap water supply		139,548	106,310
Wastewater treatment operating services		126,300	78,805
Interest income		23,068	16,549
Installation services		124,995	163,605
Construction and upgrade services of infrastructure		414,496	202,540
Total revenue		828,407	567,809
Cost of sales and services		(658,394)	(443,231)
Gross profit		170,013	124,578
Other income, expenses, gains and losses, net	5	16,310	4,201
Impairment losses under expected credit loss model, net of reversal	15	(937)	(3,045)
Distribution and selling expenses		(8,725)	(5,639)
Administrative expenses		(33,395)	(23,993)
Finance costs	6	(29,831)	(16,786)
Profit before tax	8	113,435	79,316
Income tax expense	7	(13,982)	(10,132)
Profit for the period		99,453	69,184

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the six months ended 30 June 2019

	Notes	Six months ended	
		30/06/2019 RMB'000 (unaudited)	30/06/2018 RMB'000 (unaudited)
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income (before tax)		267	1,494
Deferred income tax on fair value gain on investments in equity instruments at fair value through other comprehensive income		(67)	(374)
Other comprehensive income for the period, net of income tax		200	1,120
Total comprehensive income for the period		99,653	70,304
Profit for the period attributable to:			
– Owners of the Company		93,611	65,380
– Non-controlling interests		5,842	3,804
		99,453	69,184
Total comprehensive income for the period attributable to:			
– Owners of the Company		93,811	66,500
– Non-controlling interests		5,842	3,804
		99,653	70,304
EARNINGS PER SHARE (RMB)			
– Basic	10	0.11	0.08

# Condensed Consolidated Statement of Financial Position

At 30 June 2019

	<i>Notes</i>	<b>30/06/2019</b> <b>RMB'000</b> <b>(unaudited)</b>	31/12/2018 <b>RMB'000</b> <b>(audited)</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	11	40,233	39,919
Right-of-use assets		77,740	–
Contract assets	14	137,197	–
Prepaid lease payments		–	76,745
Investment properties		12,398	12,622
Intangible assets	12	2,189,893	1,947,203
Goodwill		25,278	25,278
Prepayments		4,000	4,000
Receivables under service concession arrangements	12	1,063,084	833,537
Equity instruments at fair value through other comprehensive income		57,540	57,273
Deferred tax assets		26,177	21,568
		<b>3,633,540</b>	3,018,145
<b>Current Assets</b>			
Inventories		56,912	33,002
Receivables under service concession arrangements	12	20,690	17,454
Trade receivables	13	187,930	129,228
Contract assets	14	18,236	18,606
Prepaid lease payments		–	1,857
Prepayments and other receivables		63,310	45,864
Bank balances and cash	16	1,012,377	547,681
		<b>1,359,455</b>	793,692
<b>Current Liabilities</b>			
Trade payables	18	50,076	43,415
Other payables	19	529,677	356,404
Lease liabilities		25	–
Contract liabilities	20	234,068	176,350
Tax liabilities		10,889	17,912
Borrowings	17	475,040	392,256
Provisions	21	4,072	1,769
		<b>1,303,847</b>	988,106
<b>Net Current Assets (Liabilities)</b>		<b>55,608</b>	(194,414)
<b>Total Assets Less Current Liabilities</b>		<b>3,689,148</b>	2,823,731



# Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2019

	<i>Notes</i>	<b>30/06/2019</b> <b>RMB'000</b> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> <i>(audited)</i>
<b>Capital and Reserves</b>			
Share capital	23	<b>859,710</b>	859,710
Share premium and reserves		<b>1,062,553</b>	1,020,325
Equity attributable to owners of the Company		<b>1,922,263</b>	1,880,035
Non-controlling interests		<b>107,167</b>	76,876
<b>Total Equity</b>		<b>2,029,430</b>	1,956,911
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		<b>17,781</b>	16,766
Lease liabilities		<b>9</b>	–
Borrowings	17	<b>720,477</b>	452,178
Deferred income – government grants		<b>164,717</b>	168,712
Bonds payable	22	<b>497,620</b>	–
Provisions	21	<b>259,114</b>	229,164
		<b>1,659,718</b>	866,820
		<b>3,689,148</b>	2,823,731

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	FVTOCI reserve	Capital reserve	Statutory surplus reserves	Retained profits	Sub-total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<i>(Note)</i>									
<b>For the six months ended 30 June 2018 (unaudited)</b>									
At 1 January 2018 (audited)	859,710	3,346	412,611	22,694	491,225	1,789,586	91,676	1,881,262	
Profit for the period	-	-	-	-	65,380	65,380	3,804	69,184	
Other comprehensive income for the period	-	1,120	-	-	-	1,120	-	1,120	
Total comprehensive income for the period	-	1,120	-	-	65,380	66,500	3,804	70,304	
Appropriation for the period	-	-	-	1,431	(1,431)	-	-	-	
2017 final dividend declared <i>(Note 9)</i>	-	-	-	-	(68,777)	(68,777)	-	(68,777)	
Dividends declared to non-controlling interests	-	-	-	-	-	-	(1,990)	(1,990)	
At 30 June 2018 (unaudited)	<u>859,710</u>	<u>4,466</u>	<u>412,611</u>	<u>24,125</u>	<u>486,397</u>	<u>1,787,309</u>	<u>93,490</u>	<u>1,880,799</u>	
<b>For the six months ended 30 June 2019 (unaudited)</b>									
At 1 January 2019 (audited)	859,710	2,732	418,386	49,639	549,568	1,880,035	76,876	1,956,911	
Profit for the period	-	-	-	-	93,611	93,611	5,842	99,453	
Other comprehensive income for the period	-	200	-	-	-	200	-	200	
Total comprehensive income for the period	-	200	-	-	93,611	93,811	5,842	99,653	
Appropriation for the period	-	-	-	1,715	(1,715)	-	-	-	
2018 final dividend declared <i>(Note 9)</i>	-	-	-	-	(51,583)	(51,583)	-	(51,583)	
Dividends declared to non-controlling interests	-	-	-	-	-	-	(800)	(800)	
Capital contribution by non-controlling equity owners of subsidiaries	-	-	-	-	-	-	15,992	15,992	
Acquisition of a subsidiary <i>(Note 25)</i>	-	-	-	-	-	-	9,257	9,257	
At 30 June 2019 (unaudited)	<u>859,710</u>	<u>2,932</u>	<u>418,386</u>	<u>51,354</u>	<u>589,881</u>	<u>1,922,263</u>	<u>107,167</u>	<u>2,029,430</u>	

## Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2019

*Note:* Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each entity 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 reserves (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 2019

	<b>Six months ended</b>	
	<b>30/06/2019</b>	<b>30/06/2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>158,478</b>	168,801
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>3,468</b>	2,054
Purchases of property, plant and equipment and construction and upgrade services of infrastructure	<b>(340,737)</b>	(219,088)
Government grants received	-	20,107
Proceeds on disposal of property, plant and equipment	-	54
Acquisition of a subsidiary	<b>(104,770)</b>	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(442,039)</b>	(196,873)
<b>FINANCING ACTIVITIES</b>		
Capital contributions by a non-controlling shareholder of a subsidiary	<b>1,920</b>	-
Proceeds from new borrowings	<b>437,508</b>	220,632
Repayments of borrowings	<b>(163,626)</b>	(134,849)
Payment of interest expenses	<b>(24,289)</b>	(13,840)
Proceeds from issuing corporate bonds	<b>497,550</b>	-
Repayments of lease liabilities	<b>(14)</b>	-
Dividends paid to non-controlling interests	<b>(800)</b>	(990)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>748,249</b>	70,953
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>464,688</b>	42,881
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>547,681</b>	700,075
Effect of foreign exchange rate changes	<b>8</b>	38
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE,</b> represented by:		
Bank balances and cash	<b>1,012,377</b>	742,994

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

## 1. BASIS OF PREPARATION

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 (the “Listing Rules”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for equity instruments at fair value through other comprehensive income, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2018.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 16	<i>Leases</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2015–2017 Cycle</i>

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* (“IAS 17”), and the related interpretations.



## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### *As a lessee*

###### Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

###### Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

*As a lessee (Continued)*

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments (“**IFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

*As a lessee (Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

##### *As a lessor*

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 Revenue from Contracts with Customers (“**IFRS 15**”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

#### 2.2 Transition and summary of effects arising from initial application of IFRS 16

##### *Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

##### *As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. There is no material impact at the date of initial application on the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

*As a lessee (Continued)*

- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with asimilar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of land and buildings in the PRC was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16 C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.5%.

	<b>At 1 January 2019</b> <b>RMB'000</b>
Operating lease commitments disclosed as at 31 December 2018	<b>116</b>
Lease liabilities discounted at relevant incremental borrowing rates	<b>112</b>
Less: Recognition exemption – short-term leases	<b>65</b>
Lease liabilities relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	<b>47</b>
Analysed as	
Current	<b>25</b>
Non-current	<b>22</b>
	<b>47</b>



# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>Note</i>	<b>Right-of-use assets</b> <i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		47
Reclassified from prepaid lease payments	(a)	<u>78,602</u>
		<u>78,649</u>
By class:		
Leasehold lands		78,602
Land and buildings		<u>47</u>
		<u>78,649</u>

*Note:*

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,857,000 and RMB76,745,000, respectively, were reclassified to right-of-use assets.

Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. There are no significant impact of adjustment to refundable rental deposits paid.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

##### *As a lessor*

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Application of IFRS 16 as a lessor has had no material impact on the Group's condensed consolidated statement of financial position as at 1 January 2019 and 30 June 2019 and its condensed consolidated statement profit or loss and other comprehensive income and cash flows for the current interim period.

Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. There is no significant impact of adjustment to refundable rental deposits received.

There was no significant impact of transition to IFRS 16 on retained profits at 1 January 2019.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

#### 2.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

##### *Sales and leaseback transactions*

Upon application of IFRS 16, the Group applies the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, the Group entered into a sale and leaseback transaction in relation to certain tap water supply infrastructure and the transaction does not satisfy the requirements as a sale. Accordingly, the Group accounts for the transfer proceeds of RMB193,400,000 as borrowing within the scope of IFRS 9 that is presented as "secured other borrowing" in note 17(f).

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
<b>Non-current Assets</b>				
Prepaid lease payments	a	76,745	(76,745)	–
Right-of-use assets	a, b	–	78,649	<b>78,649</b>
<b>Current Assets</b>				
Prepaid lease payments	a	1,857	(1,857)	–
<b>Current Liabilities</b>				
Lease liabilities	b	–	(25)	<b>(25)</b>
<b>Non-current Liabilities</b>				
Lease liabilities	b	–	(22)	<b>(22)</b>

Notes:

- The adjustments are made to reclassify the non-current and current portion of prepaid lease payments to right-of-use assets upon adoption of IFRS 16.
- The adjustments are made to recognise right-of-use assets and lease liabilities relating to operating leases upon the adoption of IFRS 16.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended	
	30/06/2019 RMB'000 (unaudited)	30/06/2018 RMB'000 (unaudited)
<b>Type of services</b>		
Tap water supply		
– Tap water	139,548	106,310
– Installation services	124,995	163,605
– Construction and upgrade services of tap water supply infrastructure	240,457	161,944
	<u>505,000</u>	<u>431,859</u>
Wastewater treatment		
– Operating services	126,300	78,805
– Construction and upgrade services of wastewater treatment infrastructure	174,039	40,596
	<u>300,339</u>	<u>119,401</u>
<b>Revenue from contracts with customers</b>	<u>805,339</u>	<u>551,260</u>
Wastewater treatment		
– Interest income	23,068	16,549
<b>Revenue</b>	<u>828,407</u>	<u>567,809</u>
<b>Timing of revenue recognition</b>		
At a point in time	265,848	185,115
Over time	539,491	366,145
	<u>805,339</u>	<u>551,260</u>
<b>Type of customer</b>		
Government	545,919	282,429
Non-government	259,420	268,831
	<u>805,339</u>	<u>551,260</u>

The Group's above revenue are derived from the PRC.

The reconciliation of the revenue from contracts with customers with the segment revenue is disclosed in note 4.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 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, installation, related construction and upgrade services
- Wastewater treatment – provision of wastewater treatment services and related construction and upgrade services

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



# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

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

	<b>Six months ended</b>	
	<b>30/06/2019</b>	<b>30/06/2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Segment revenue</b>		
Tap water supply		
– From external customers		
– Tap water	<b>139,548</b>	106,310
– Installation services	<b>124,995</b>	163,605
– Construction and upgrade services of tap water supply infrastructure	<b>240,457</b>	161,944
– Inter-segment sales*		
– Tap water	<b>80</b>	159
Wastewater treatment		
– From external customers		
– Operating services	<b>126,300</b>	78,805
– Interest income	<b>23,068</b>	16,549
– Construction and upgrade services of wastewater treatment infrastructure	<b>174,039</b>	40,596
Elimination*	<b>(80)</b>	(159)
Revenue	<b>828,407</b>	567,809
<b>Segment results</b>		
– Tap water supply**	<b>47,931</b>	42,141
– Wastewater treatment	<b>51,522</b>	27,043
Profit after tax	<b>99,453</b>	69,184

\* Inter-segment sales for the six months ended 30 June 2018 and 2019 were conducted at terms mutually agreed among the companies comprising the Group.

\*\* Based on the CODM's consideration, corporate expenses such as auditors' remuneration, directors' emoluments, other legal and professional fees are allocated to tap water supply segment.

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. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment assets and liabilities

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

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
<b>Segment assets</b>		
– Tap water supply	<b>3,194,834</b>	2,543,970
– Wastewater treatment	<b>1,837,161</b>	1,267,867
Elimination	<b>(39,000)</b>	–
Consolidated total assets	<b>4,992,995</b>	3,811,837
<b>Segment liabilities</b>		
– Tap water supply	<b>2,030,789</b>	1,281,946
– Wastewater treatment	<b>971,776</b>	572,980
Elimination	<b>(39,000)</b>	–
Consolidated total liabilities	<b>2,963,565</b>	1,854,926

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

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

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

	Six months ended	
	30/06/2019	30/06/2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	3,468	2,054
Deferred income in respect of government grants recognised	3,995	2,646
Value-added-tax ("VAT") refunds ( <i>Note (a)</i> )	4,212	4,582
Commission income on garbage fees collected for governmental bureau	57	252
Late charges on tap water users	1,802	1,525
Rental income less outgoings	548	311
Losses on disposal of property, plant and equipment, net	(11)	(13)
Sewage charges	-	(131)
Foreign exchange losses, net	(207)	(8,321)
Others ( <i>Note (b)</i> )	2,446	1,296
	<b>16,310</b>	<b>4,201</b>

*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 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 of the Company, the Group achieved both the technology requirements and pollutant emission standards prescribed.
- b. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, other equipment and materials etc.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 6. FINANCE COSTS

	Six months ended	
	30/06/2019	30/06/2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	20,303	13,364
Interest on other borrowings	5,800	476
Unwinding of the discount (Note 21)	5,099	3,934
Interest on lease liabilities	1	–
Interest on bonds payable (Note 22)	5,062	–
	<u>36,265</u>	<u>17,774</u>
Less: Amount capitalised in qualified assets	(6,434)	(988)
	<u>29,831</u>	<u>16,786</u>

## 7. INCOME TAX EXPENSE

	Six months ended	
	30/06/2019	30/06/2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax	19,538	16,113
Deferred tax	(5,556)	(5,981)
	<u>13,982</u>	<u>10,132</u>

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 7. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT law, the tax rate of the subsidiaries is 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	Financial periods
The Company	15%	Six months ended 30 June 2018 and 2019
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.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
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.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
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.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
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.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) (“Xinglu Wastewater Treatment”) (Notes (a) and (b))	Nil or 15%	Six months ended 30 June 2018 and 2019
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.) (Note (a))	15%	Six months ended 30 June 2018 and 2019
瀘州市興合水環境治理有限公司 (Luzhou Xinghe Water Governance Co., Ltd.) (“Xinghe Water”) (Notes (a) and (b))	15%	Six months ended 30 June 2019
威遠清溪水務有限公司 (Weiyuan Qingxi Water Co., Ltd.) (“Weiyuan Qingxi Water”) (Notes (a) and (b))	15%	Six months ended 30 June 2019
威遠城市供排水安裝工程有限公司 (Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.) (“Weiyuan Installation Company”) (Notes (a) and (b))	15%	Six months ended 30 June 2019
樂山市興瀘水務興嘉環保科技有限公司 (Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.) (“Leshan Xingjia”) (Note (c))	20%	Six months ended 30 June 2019 (Six months ended 30 June 2018: N/A)
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“Fanxing Environmental”) (Note (b))	Nil	Six months ended 30 June 2019



# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 7. INCOME TAX EXPENSE (CONTINUED)

*Notes:*

- a. 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 2019. Therefore these entities enjoy the preferential EIT rate of 15% for the period.
- b. According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant (“**Chengdong**”) and Chengnan Wastewater Treatment Plant (“**Chengnan**”), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rate of Chengdong and Chengnan is nil for the six months ended 30 June 2018 and 2019.

Additionally, Fanxing Environmental, which was acquired by the Group in February 2019, is also entitled to be exempted from EIT in respect of the income generated by it for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. Fanxing Environmental commenced production and operation in February 2019 and the EIT rate is nil for the six months ended 30 June 2019.

- c. According to the Notice on Implementing Inclusive Tax Relief Policy for Small and Micro Size Enterprises (Notice of the State Administration of Taxation No. 13 [2019]), Leshan Xingjia enjoys the preferential tax rate of 20%.
- d. Xinghe Water was established on 29 August 2018.

Weiyuan Qingxi Water and Weiyuan Installation Company were acquired by the Company on 21 September 2018.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 8. PROFIT BEFORE TAX

	Six months ended	
	30/06/2019	30/06/2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
<b>Profit before tax has been arrived at after charging:</b>		
Depreciation of property, plant and equipment	3,487	2,957
Depreciation of investment properties	224	224
Amortisation of intangible assets	43,387	36,188
Depreciation of right-of-use assets	909	–
Amortisation of prepaid lease payments	–	861
	<u>48,007</u>	<u>40,230</u>
Total depreciation and amortisation		40,230
Staff costs (including the directors' and supervisors' remuneration):		
– Salaries, wages and welfare	61,398	56,202
– Retirement benefit scheme contributions	11,921	9,725
	<u>73,319</u>	<u>65,927</u>
Total staff costs		65,927
<b>and after crediting:</b>		
Gross rental income from investment properties	704	467
Less: Direct operating expenses incurred for investment properties that generated rental income	(156)	(156)
	<u>548</u>	<u>311</u>

## 9. DIVIDEND

During the reporting period, a final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018 (six months ended 30 June 2018: (unaudited) RMB68,777,000 or RMB0.08 per share) was declared to the shareholders of the Company.

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: (unaudited) Nil).

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 10. EARNINGS PER SHARE

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

	Six months ended	
	30/06/2019 (unaudited)	30/06/2018 (unaudited)
Profit for the period attributable to the owners of the Company (RMB'000)	<u>93,611</u>	<u>65,380</u>
Weighted average number of ordinary shares issued ('000)	<u>859,710</u>	<u>859,710</u>

No diluted earnings per share is presented for the six months ended 30 June 2019 and 2018 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

## 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB11,000 (for the six months ended 30 June 2018 (unaudited): RMB67,000) for nil consideration (for the six months ended 30 June 2018 (unaudited): RMB: 54,000), resulting in a loss on disposal of RMB11,000 (for the six months ended 30 June 2018 (unaudited): RMB13,000).

## 12. 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/right-of-use assets 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 a maximum 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 (unless such infrastructure is pledged against borrowings for the operation of the Group within the Service Concession Period as allowed under certain service concession agreements), and arrangements for arbitrating disputes.

### 12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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.

During the current period, the Group had the following new service concession arrangements:

- (a) Pursuant to the concession agreement and supplement agreement with Shizhong District Housing and Construction Bureau of Leshan Municipality (樂山市市中區住房和建設局), the Group has concession right to provide wastewater treatment services in township streets and rural areas of Shizhong District at an initial wastewater treatment tariff rate set out therein. The tenure of the service concession period is for a maximum of 13 years (including the construction period of the relevant infrastructure). Apart from the wastewater treatment service fee, the Group is entitled to a guaranteed fixed monthly payment which is calculated based on the Group's investment in the relevant infrastructure plus a margin as mutually agreed between the Group and the relevant governmental bureau.
- (b) In February 2019, upon acquisition of Fanxing Environmental, the Group entered into 4 concession agreements with The People's Government of Gulin County (古藺縣人民政府), The People's Government of Jiangyang District (江陽區人民政府), The People's Government of Naxi District (納溪區人民政府) and The People's Government of Longmatan District (龍馬潭區人民政府) of Luzhou Municipality for the provision of wastewater treatment services in township streets and rural areas in respective county/district at an initial wastewater treatment tariff rate set out therein. The tenure of the service concession period is for 30 years commencing from operation. Apart from the wastewater treatment service fee, the Group is entitled to a guaranteed fixed monthly payment which is calculated based on the Group's investment in the relevant infrastructure plus a margin as mutually agreed between the Group and the relevant governmental bureau.

During the service concession period of the aforesaid service concession arrangements, the Group has responsibilities including, amongst others, provision of uninterrupted tap water supply and wastewater treatment service, maintaining serviceability of the tap water supply and wastewater treatment infrastructure and quality monitoring and inspection procedures of tap water, wastewater and discharged water, and remedial protocols, etc.

In the event of the Group's default, the operation of the relevant infrastructure shall be taken over. The events of default include, amongst others, transfer or leasing out the concession right without permission, assets pledge or disposal without permission, material adverse impact on public interest or safety due to termination or suspension of operation without permission, significant quality or safety accidents due to mismanagement, liquidation or insolvency, etc.

Upon expiry of the service concession period, the Group has no priority to extend the concession right and should transfer the related infrastructures to the relevant governmental bureau at nil consideration.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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

	<i>RMB'000</i>
<b>Cost</b>	
At 31 December 2018 (audited)	2,193,937
Acquisition of a subsidiary	7,579
Additions	<u>278,498</u>
<b>At 30 June 2019 (unaudited)</b>	<b><u>2,480,014</u></b>
<b>Accumulated amortisation</b>	
At 31 December 2018 (audited)	(246,734)
Amortisation for the period	<u>(43,387)</u>
<b>At 30 June 2019 (unaudited)</b>	<b><u>(290,121)</u></b>
<b>Carrying amounts</b>	
<b>At 30 June 2019 (unaudited)</b>	<b><u><u>2,189,893</u></u></b>
At 31 December 2018 (audited)	<u><u>1,947,203</u></u>

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.



## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

As at 30 June 2019, intangible assets recognised under service concession arrangements of RMB800 million (31 December 2018 (audited): RMB578 million) 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 directors of the Company determine the recoverable amounts of the relevant CGUs as at 30 June 2019 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the directors of the Company covering a five-year period and pre-tax discount rates ranging 10.9% to 14.7% per annum. No growth in 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 the management’s expectation for the forecast growth in usage of tap water and wastewater treatment services and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the directors of the Company, these assumptions are realistic and achievable. Based on the above value in use calculations and considering that the assumptions used in the calculation, the directors of the Company determine that there is no impairment of any of its CGUs containing the Group’s intangible assets as at 30 June 2019. The directors of the Company also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

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

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	<i>31/12/2018</i> <i>RMB'000</i> <b>(audited)</b>
Non-current portion	<b>1,063,084</b>	833,537
Current portion	<b>20,690</b>	17,454
	<b>1,083,774</b>	850,991
Expected collection schedule is analysed as follows:		
Within one year	<b>20,690</b>	17,454
More than one year, but not exceeding two years	<b>22,795</b>	19,840
More than two years, but not exceeding three years	<b>24,266</b>	21,360
More than three years, but not exceeding four years	<b>25,510</b>	22,379
More than four years, but not exceeding five years	<b>26,902</b>	23,449
Over five years	<b>963,611</b>	746,509
	<b>1,083,774</b>	850,991

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The effective rate for the above financial assets fall within the range from 3.51% to 6.22% (31 December 2018: (audited) 3.51% to 6.22%) per annum.

Details of the impairment assessment are set out in note 15.

### 13. TRADE RECEIVABLES

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Trade receivables	<b>190,462</b>	131,889
Less: Allowance for credit losses	<b>(2,532)</b>	(2,661)
	<b>187,930</b>	129,228

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 to 6 months to its wastewater treatment and installation services customers.

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

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Within 3 months	<b>109,727</b>	77,388
Between 4 months and 6 months	<b>26,704</b>	20,742
Between 7 months and 12 months	<b>36,363</b>	20,201
Over 1 year	<b>15,136</b>	10,897
	<b>187,930</b>	129,228

Details of the impairment assessment are set out in note 15.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 14. CONTRACT ASSETS

The contract assets of the Group relate to their right to consideration for provision of construction services on wastewater treatment infrastructure and installation services completed but yet invoiced by the Group because their right to payments are still not yet unconditional according to the relevant contracts at the end of each reporting period. The contract assets, net of credit losses, of the Group at the end of reporting period are as follows:

	<b>30/06/2019</b> <b>RMB'000</b> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Provision of construction services on wastewater treatment infrastructure <i>(Note (a))</i>	<b>138,420</b>	–
Provision of installation services <i>(Note (b))</i>	<b>17,013</b>	18,606
	<b>155,433</b>	18,606
Less: Portion classified as non-current	<b>(137,197)</b>	–
Current portion	<b>18,236</b>	18,606

*Notes:*

- (a) These contract assets arose from the Group's construction services on wastewater treatment infrastructure that the Group is provided with fixed monthly payment by the relevant grantors for the service concession period with significant financing component. These contract assets will be transferred to receivables under service concession arrangements upon the completion of the construction of the relevant infrastructure. The portion of contract assets with settlement not expected to commence within one year from the end of the reporting period is classified as non-current.
- (b) These contract assets are transferred to trade receivables and when such right become unconditional.

The increase in the contract assets of the Group was mainly due to acquisition of Fanxing Environment and the increase in the Group's construction services on wastewater treatment infrastructure during the period.

Details of the impairment assessment are set out in Note 15.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 15. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended	
	30/06/2019 (unaudited)	30/06/2018 (unaudited)
Impairment loss recognised (reversed) in respect of		
Trade receivables – installation services	(129)	1,425
Contract assets	(91)	1,192
Other receivables	1,157	428
	<u>937</u>	<u>3,045</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

### 16. BANK BALANCES AND CASH

As at 30 June 2019, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.725% (as at 31 December 2018: 0.01% to 1.265%) per annum.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 17. BORROWINGS

	<b>30/06/2019</b>	31/12/2018
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Unsecured bank borrowings without corporate guarantee <i>(Note (a))</i>	<b>260,000</b>	260,000
Unsecured bank borrowings with corporate guarantee <i>(Note (b))</i>	<b>147,141</b>	213,709
Secured bank borrowings <i>(Note (c))</i>	<b>354,500</b>	246,700
Unsecured other borrowing <i>(Note (d))</i>	<b>184,976</b>	58,025
Unsecured other borrowing with corporate guarantee <i>(Note (e))</i>	<b>66,000</b>	66,000
Secured other borrowing <i>(Note (f))</i>	<b>182,900</b>	–
	<b><u>1,195,517</u></b>	<u>844,434</u>
The carrying amounts repayable:		
Within one year or on demand	<b>475,040</b>	392,256
Within a period of more than one year but not exceeding two years	<b>178,495</b>	97,849
Within a period of more than two years but not more than five years	<b>273,456</b>	223,706
Within a period of more than five years	<b>268,526</b>	130,623
	<b><u>1,195,517</u></b>	<u>844,434</u>
Less: Amount due within one year shown under current liabilities	<b><u>(475,040)</u></b>	<u>(392,256)</u>
Amount shown under non-current liabilities	<b><u>720,477</u></b>	<u>452,178</u>

### Notes:

(a) As at 31 December 2018, included in the unsecured bank borrowings are bank borrowings of RMB80,000,000 bearing interest at fixed rates ranging from 3.99% to 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rate of 4.79% per annum. These bank borrowings are repayable from January 2019 to December 2019.

As at 30 June 2019, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000 bearing interest at a fixed rate of 3.99% per annum, the remaining unsecured bank borrowings bear interest at floating rate of 4.79% per annum. These bank borrowings are repayable from July 2019 to May 2020.

(b) As at 31 December 2018, the unsecured bank borrowings bear interest at floating rates of 4.79% to 5.78% per annum and are repayable by instalments from March 2019 to November 2033. Their repayments are guaranteed by the group companies.

As at 30 June 2019, the unsecured bank borrowings bear interest at floating rates of 4.57% to 5.78% per annum and are repayable from September 2019 to November 2033. Their repayments are guaranteed by the group companies.



# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 17. BORROWINGS (CONTINUED)

*Notes: (Continued)*

- (c) (i) As at 31 December 2018, the bank borrowings are comprised of the following:
- Bank borrowings of RMB126,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from May 2019 to December 2030. The repayment of the bank borrowings are guaranteed by the group companies.
  - A bank borrowing of RMB98,700,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 4.90% per annum and is repayable by instalments from June 2019 to April 2027.
  - Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.
  - Bank borrowings of RMB16,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments from December 2019 to December 2020.
- (ii) As at 30 June 2019, the bank borrowings are comprised of the following:
- Bank borrowings of RMB118,000,000 secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from November 2019 to December 2030. The repayment of the bank borrowings are guaranteed by the group companies.
  - A bank borrowing of RMB113,000,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 4.90% per annum and is repayable by instalments from December 2019 to April 2027.
  - Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.
  - Bank borrowings of RMB16,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments from December 2019 to December 2020.
  - Bank borrowings of RMB54,500,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 5.64% per annum and are repayable by instalments from December 2019 to December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
  - Bank borrowings of RMB47,000,000 are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from December 2019 to January 2026. The repayment of the bank borrowings are guaranteed by Luzhou City Xinglu Investment Group Co., Ltd., a state-owned enterprise.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 17. BORROWINGS (CONTINUED)

Notes: (Continued)

- (d) (i) As at 31 December 2018, the other borrowings are comprised of the following:
- A loan of RMB2,077,000 is from The World Bank for financing the Group's construction of tap water supply infrastructure, bears interest at floating rates ranging from 1.11% to 2.02% per annum and is repayable by instalments till May 2021.
  - A loan of RMB2,250,000 is from a non-controlling equity owner of a subsidiary, non-interest bearing and was repaid in 2019.
  - Other loans of RMB53,698,000 are from independent third parties, bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.
- (ii) As at 30 June 2019, the other borrowings are comprised of the following:
- A loan of RMB2,278,000 is from The World Bank for financing the Group's construction of tap water supply infrastructure, bears interest at floating rates ranging from 1.11% to 2.02% per annum and is repayable by instalments till May 2021.
  - Other loans of RMB52,698,000 are from independent third parties, bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.
  - A loan of RMB130,000,000 is from government, bears interest at fixed rate of 3.41% per annum and is repayable on March 2026.
- (e) The other borrowing represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., bears interest at a fixed rate of 1.20% 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.
- (f) As at 28 January 2019, the Group entered into a sale and leaseback arrangement of certain tap water supply infrastructure, with a carrying amount of RMB248,862,000, with a financial institution for a consideration of RMB193,400,000. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale, accordingly, the transfer proceeds of RMB193,400,000 is accounted for as borrowing within the scope of IFRS 9. The borrowing is secured by certain tap water supply infrastructure of the Group, bears interest at a floating rate of 4.28% per annum and is repayable by instalments from July 2019 to January 2024.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 18. TRADE PAYABLES

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

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Within 6 months	<b>40,487</b>	33,344
Between 7 months and 12 months	<b>3,673</b>	2,426
Over 1 year	<b>5,916</b>	7,645
	<b>50,076</b>	43,415

The credit period on purchases are generally within 6 months.

### 19. OTHER PAYABLES

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Construction payables	<b>346,591</b>	226,510
Payables to governmental bureau	<b>59,378</b>	50,415
Dividends payable:		
– Luzhou City Xinglu Investment Group Co., Ltd. (an immediate holding company of the Company)	<b>30,699</b>	–
– Luzhou Laojiao Group Co., Ltd.	<b>4,224</b>	–
– Luzhou City Infrastructure Investment Co., Ltd.	<b>3,763</b>	–
– H-share shareholders	<b>12,897</b>	–
Wages and welfare payable	<b>23,860</b>	35,020
Other taxes payable	<b>10,880</b>	14,363
Payables for purchases of wastewater treatment plants	<b>9,386</b>	9,386
Interest payable on borrowings	<b>1,814</b>	–
Interest payable on bonds	<b>4,992</b>	–
Other payables	<b>21,193</b>	20,710
	<b>529,677</b>	356,404

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 20. CONTRACT LIABILITIES

The contract liabilities represents the Group's obligation to transfer goods or services to customers for which the Group has received consideration from customers in advance.

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
Provision of installation services	<b>199,728</b>	147,695
Provision of tap water supply	<b>30,329</b>	24,644
Sales of secondary-water supply equipment	<b>4,011</b>	4,011
	<b>234,068</b>	176,350

### 21. PROVISIONS

	<b>30/06/2019</b> <i>RMB'000</i> <b>(unaudited)</b>	31/12/2018 <i>RMB'000</i> (audited)
At beginning of the period/year	<b>230,933</b>	160,565
Provisions from acquisition of a subsidiary	–	16,187
Provisions recognised	<b>27,684</b>	51,149
Unwinding of the discount ( <i>Note 6</i> )	<b>5,099</b>	7,291
Payments	<b>(530)</b>	(4,259)
At end of the period/year	<b>263,186</b>	230,933
Less: Amount classified as current liabilities	<b>(4,072)</b>	(1,769)
Non-current portion	<b>259,114</b>	229,164

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 rate as at 30 June 2019 is 4.90% (31 December 2018: (audited)4.90%) per annum.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 22. BONDS PAYABLE

On 26 April 2019, the Company issued the first tranche of the corporate bonds in the principal amount of RMB500,000,000 (an issue cost of RMB2,450,000), which are unsecured, will mature in April 2024 and have a coupon rate of 5.99% per annum. The Company has a right to adjust the coupon rate of the corporate bonds upward or downward in April 2022 while the corporate bond holders have a right to require the Company to redeem their corporate bonds at the principal amount with accrued interest in whole or in part in April 2022. The corporate bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, and are listed on The Shanghai Stock Exchange with an aggregate fair value of approximately RMB500 million as at 30 June 2019.

The movement of the liability component of the bonds payable for the period is set out as below:

	<i>RMB'000</i> (unaudited)
Issuance principal amounts	500,000
Less: Issue costs	<u>(2,450)</u>
Upon issuance as at 26 April 2019	497,550
Interest accrued for in the period	5,062
Interest payable included in other payables	<u>(4,992)</u>
At 30 June 2019	<u><u>497,620</u></u>

### 23. SHARE CAPITAL

	<b>30/06/2019</b> <i>RMB'000</i> (unaudited)	31/12/2018 <i>RMB'000</i> (audited)
At beginning and end of the period/year	<u><b>859,710</b></u>	<u>859,710</u>
Shares of RMB1 each		
– Domestic shares	<b>644,770</b>	644,770
– H shares	<u><b>214,940</b></u>	<u>214,940</u>
	<u><b>859,710</b></u>	<u>859,710</u>

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.

## 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value measurements and valuation processes

Equity investments are measured at fair value for financial reporting purposes. This note provides information about how the Group determines the fair values of these financial assets.

In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets.

The fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

#### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/06/2019	31/12/2018		
Unquoted equity investments	<b>17.51% of equity investment in Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB53,663,000; and</b>	17.51% of equity investment in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB53,310,000; and	Level 3	Based on adjusted net assets value of the investment. <i>(Note 1)</i>
	<b>0.01% of equity investment in Sichuan Tianhua Inc. – RMB27,000</b>	0.01% of equity investment in Sichuan Tianhua Inc. – RMB153,000		
Unquoted equity investments	<b>0.04% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB3,850,000</b>	0.04% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB3,810,000	Level 3	Based on price book ratio of comparative companies with key inputs, such as price book ratios of comparative companies, estimated market liquidity, etc. <i>(Note 2)</i>

*Notes:*

1. An increase in the adjusted net asset value of such investment used in isolation would result in an increase in the fair value of the equity investment, and vice versa.
2. An increase in 5% of price book ratio used in isolation would result in an increase of RMB190,000 and RMB193,000 in the fair value of the equity investment as at 31 December 2018 and 30 June 2019, respectively, and vice versa.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

### Reconciliation of Level 3 fair value measurements of financial assets

	<b>Unlisted equity investments RMB'000 (unaudited)</b>
At 1 January 2019	57,273
Total gains in other comprehensive income	<u>267</u>
At 30 June 2019	<u><u>57,540</u></u>

All gains included in other comprehensive income relate to equity instruments at fair value through other comprehensive income ("FVTOCI") held at the end of the reporting period and are reported as changes of "FVTOCI reserve".

### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

## 25. ACQUISITION OF A SUBSIDIARY

### Acquisition of Luzhou Fanxing Environmental Protection and Development Co. Ltd.

In February 2019, the Company entered into an equity transfer agreement with certain government-related entities (as defined in note 27) dated 27 February 2019, pursuant to which, the Company acquired 92.5% equity interest in Fanxing Environmental for a cash consideration of RMB117,000,000. This acquisition has been accounted for using the acquisition method. No goodwill was recognised as a result of the acquisition. Fanxing Environmental is engaged in provision of wastewater treatment service and has obtained 4 exclusive concession rights for the provision of wastewater treatment service in county areas of Longmatan District, Naxi District, Jiangyang District and Gulin County of Luzhou City. Fanxing Environmental was acquired so as to continue the expansion of the Group's wastewater treatment operations.

Acquisition-related costs amounting to RMB453,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the "administrative expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 25. ACQUISITION OF A SUBSIDIARY (CONTINUED)

#### Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis)

The provisional fair values of identifiable assets and liabilities of Fanxing Environmental acquired at the date of obtaining control, subject to further adjustments, if any, are as follows:

	<i>RMB'000</i> (unaudited)
Bank balances and cash	12,230
Trade receivables	2,107
Other receivables	159
An amount due from the Group	1,000
Inventories	40
Contract assets	189,995
Property, plant and equipment	1,393
Receivables under service concession arrangements	54,124
Intangible assets	7,579
Trade payables	(426)
Other payables	(62,021)
Borrowings	(78,000)
Tax liabilities	(28)
Deferred tax liabilities	(1,895)
	<u>126,257</u>

In the opinion of the directors of the Company, the aggregate fair value of trade receivables, other receivables and an amount due from the Group at the date of acquisition amounted to RMB3,266,000. The gross contractual amounts of such trade receivables, other receivables and an amount due from the Group acquired amounted to RMB3,266,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows are expected to be collected amounted to RMB3,266,000.

#### Non-controlling interests

The non-controlling interest (7.5%) in Fanxing Environmental recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Fanxing Environmental and amounted to RMB9,257,000.

## Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

### 25. ACQUISITION OF A SUBSIDIARY (CONTINUED)

RMB'000

Consideration transferred, satisfied by cash	117,000
Add: Non-controlling interest	9,257
Less: Net assets acquired	<u>126,257</u>
	<u><u>-</u></u>

#### Net cash outflow arising on acquisition

RMB'000

Analysis of outflow of cash and cash equivalents in respect of acquisition of Fanxing Environmental:	
Cash paid	117,000
Bank balances and cash acquired	<u>(12,230)</u>
Net cash outflow arising on acquisition	<u><u>104,770</u></u>

Included in the net profit and revenue of the Group for the six months ended 30 June 2019 are RMB2,465,000 and RMB3,984,000, respectively, attributable to the additional business generated by Fanxing Environmental.

Had the acquisition been completed on 1 January 2019, total Group's revenue for six month ended 30 June 2019 would have been RMB828,913,000 and profit for the period would have been RMB99,740,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 26. CAPITAL COMMITMENTS

	<b>30/06/2019</b>	31/12/2018
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Capital expenditure contracted but not provided for:		
constructing and upgrading infrastructure	<b><u>1,058,921</u></b>	<u>763,897</u>

## 27. 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 service, 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. Besides, the Group has established its pricing strategy and approval process for purchase and sales of goods, investments and service. 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 of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the acquisition as disclosed in note 25 and 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.

# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 27. 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:

	Relationship	Six months ended	
		30/06/2019 RMB'000 (unaudited)	30/06/2018 RMB'000 (unaudited)
Tap water supply			
– Luzhou City Xinglu Investment Group Co., Ltd	An immediate holding company	7	13
– Luzhou Laojiao Group Co., Ltd.	A shareholder	102	138
– Other companies	Fellow subsidiaries	1,503	1,399
Installation service income received			
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	Fellow subsidiary	3,440	4
– Other companies	Fellow subsidiaries	2,971	409
Water quality testing income			
– Luzhou Laojiao Group Co., Ltd.	A shareholder	11	–
– Other companies	Fellow subsidiaries	–	78
Property management fees	A fellow subsidiary	(2,198)	(382)



# Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2019

## 27. RELATED PARTY TRANSACTIONS (CONTINUED)

The above transactions were conducted in accordance with the terms of relevant agreements.

In addition, during six months ended 30 June 2019 and 2018, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

### *Compensation of directors, supervisors and key management personnel*

The remuneration of directors, supervisors and other members of key management during the period are as follows:

	<b>Six months ended</b>	
	<b>30/06/2019</b>	<b>30/06/2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Short-term benefits	<b>1,040</b>	<b>897</b>