



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



2021
INTERIM REPORT

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Chapter I Corporate Information

BOARD OF DIRECTORS:

Executive Directors:

Mr. Zhang Qi (張歧先生) (*Chairman*)

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)

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DOMESTIC SHARE REGISTRAR:

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No. 17, Taipingqiao Avenue
Xicheng District, Beijing, the PRC

H SHARE REGISTRAR:

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

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Hong Kong

PRINCIPAL BANKERS:

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

STOCK CODE:

2281

COMPANY WEBSITE:

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
“Board” or “Board of Directors”	the board of Directors
“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
“Dechang Water”	Dechang Xinglu Water Co., Ltd.* (德昌縣興瀘水務有限公司), a limited liability company established in the PRC on 2 January 2020 and a non-wholly owned subsidiary of the Company, mainly engaged in the wastewater treatment and recycling business
“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 Development Co., Ltd.* (瀘州市繁星環保發展有限公司), a limited liability company established in the PRC on 18 August 2016 and a non-wholly owned subsidiary of the Company, mainly engaged in the wastewater treatment business
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, and are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

Chapter II Definitions (Continued)

“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 successful initial public offering of the Company’s H Shares through the main board of the Hong Kong Stock Exchange on 31 March 2017
“Leibo Water”	Leibo Xinglu Water Co., Ltd.* (雷波縣興瀘水務有限公司), a limited liability company established in the PRC on 18 February 2020 and a non-wholly owned subsidiary of the Company, mainly engaged in tap water supply and the installation of tap water piping equipment
“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 limited liability company established in the PRC 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 limited liability company established in the PRC 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
“Qingbaijiang Water”	Chengdu Qingbaijiang Xinglu Water Co., Ltd.* (成都市青白江興瀘水務有限公司), a limited liability company established in the PRC on 13 December 2019 and a non-wholly owned subsidiary of the Company, mainly engaged in the wastewater treatment and recycling business
“Reporting Period”	the period for the six months starting from 1 January 2021 to 30 June 2021

Chapter II Definitions (Continued)

“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
“Weiyuan Qingxi Water”	Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.* (興瀘水務(集團)威遠清溪水務有限公司), a limited liability company established in the PRC on 30 December 2004, and a non-wholly owned subsidiary of the Company, mainly engaged in water supply and the installation of tap water piping equipment business
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), a limited liability company established in the PRC 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 limited liability company established in the PRC on 11 December 2000, and a non-wholly owned subsidiary of the Company, mainly engaged in the wastewater treatment business
“%”	percent

* For the identification purposes only

Chapter III Financial Highlights

The Board is pleased to announce the following financial highlights:

1 CONSOLIDATED RESULTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue	<u>925,646</u>	<u>1,170,554</u>
Profit before tax	148,227	129,154
Income tax expense	<u>(20,263)</u>	<u>(25,288)</u>
Profit for the period	<u>127,964</u>	<u>103,866</u>
Total comprehensive income for the period attributable to:		
– Owners of the Company	117,376	96,516
– Non-controlling interests	<u>10,012</u>	<u>6,991</u>
Return on shareholders' interests (<i>Note</i>)	5.3%	4.8%
Basic earnings per share (<i>RMB</i>)	<u>0.14</u>	<u>0.11</u>

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

	30/06/2021	31/12/2020
	RMB'000	RMB'000
Total assets	7,590,063	7,224,011
Total liabilities	<u>(5,165,326)</u>	<u>(4,891,079)</u>
Total equity	<u>2,424,737</u>	<u>2,332,932</u>
Equity attributable to owners of the Company	2,243,066	2,176,637
Non-controlling interests	<u>181,671</u>	<u>156,295</u>

As at the end of the Reporting Period, the Group's unaudited profit attributable to owners of the Company amounted to approximately RMB118.0 million. Basic earnings per share of the Group during the Reporting Period were approximately RMB0.14. The Board did not recommend the payment of interim dividends for the six months ended 30 June 2021.

Chapter IV Management Discussion and Analysis

(I) INDUSTRY OVERVIEW

On 25 April 2021, the General Office of the State Council issued the Implementation Opinions on Strengthening Urban Waterlogging Control (《關於加強城市內澇治理的實施意見》), which proposed for the exploration of a full chain management mechanism for water affairs such as water supply, drainage and water treatment and a new development model for coordinated flood control and drainage and urban construction with the participation by social capital and provided a strong policy guide for the water supply and drainage industry to extend the upstream and downstream industrial chain.

On 11 June 2021, the National Development and Reform Commission, the Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment jointly prepared the “14th Five-Year Plan for Urban Wastewater Treatment and Resources Utilization Development” (《「十四五」城鎮污水處理及資源化利用發展規劃》) (the “**Plan**”). The Plan specifies the goals that by 2025, the blank areas for direct discharge outlet and collection and treatment facilities for domestic sewage in urban built-up areas shall be basically eliminated and the centralized collection rate of urban domestic sewage in the PRC shall reach more than 70%; the wastewater treatment capacity in cities and counties shall basically meet the needs of economic and social development, and the wastewater treatment rate in counties shall reach over 95%; the harmless disposal rate of municipal sludge shall reach over 90%; the wastewater collection and treatment capacity and the level of harmless sludge disposal of designated towns in the Yangtze River Economic Belt, the Yellow River Basin and the Beijing-Tianjin-Hebei Region shall be significantly improved; by 2035, the urban domestic sewage collection pipeline network shall have nearly full coverage, and all cities and towns shall have wastewater treatment capacity to fully realize harmless disposal of sludge. The level of utilization of sewage and sludge resources shall be significantly improved, and urban wastewater shall be treated in a safe and efficient manner, so that everyone can share a green, ecological and safe urban water ecological environment. The Plan will help alleviate the issues of unbalanced and inadequate development of urban wastewater collection and treatment facilities in the PRC and serve as a useful policy guide for the wastewater treatment industry in terms of standard improvement and environmental treatment.

(II) DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2021, the Company will, in adherence to the philosophy of “reform and innovation, quality and efficiency improvement, smart leadership and leapfrog development”, closely follow the guidance of industrial policy and seize opportunities to strengthen its presence in the water supply and drainage business, smart water and related upstream and downstream industry chains. It will make full use of the Group’s own strengths to make appropriate and flexible adjustments and expand high-quality and efficient projects with a sound investment and financing strategy, stimulate internal driving force to train and develop high-quality talents in the areas of technical innovation and efficient management with people-oriented in mind, and promote high-quality and fast development in all aspects.

(III) BUSINESS REVIEW

The Group is an integrated municipal water service provider in Sichuan Province, the PRC, principally engaged in tap water supply and wastewater treatment. We adopt project models of build-own-operate (“**BOO**”), transfer-own-operate (“**TOO**”) and build-operate-transfer (“**BOT**”) in the course of business, where we enter into concession agreements with local governments for periods up to 30 years. The Company mainly carries on business in Luzhou City, Weiyuan area in Neijiang City, Leshan City, parts of Liangshan Prefecture and Qingbaijiang area in Chengdu in China, etc.

As at the end of the Reporting Period, we operated 12 tap water plants and 9 city wastewater treatment plants, with a total treatment capacity of approximately 1.09 million tons per day. We also operated several wastewater treatment facilities in townships and rural areas.

Tap Water Projects

As at the end of the Reporting Period, the Group owned 12 tap water supply plants with a daily supply capacity of approximately 699,000 tons in total. Daily water supply capacity increased by 60,000 tons as compared with that as at 31 December 2020 due to the addition of one water plant (Hejiang Huangxi Water Plant) and that the original Hejiang Water Plant was converted into a pump station. The average utilisation rate of tap water plants stood at 70.8%.

During the Reporting Period, our total water sales volume amounted to approximately 73.7 million tons, representing an increase of 11.8% as compared with approximately 65.9 million tons for the six months ended 30 June 2020. The increase was mainly due to the extended water supply areas in cities.

Wastewater Treatment Projects

As at the end of the Reporting Period, the Group owned 9 operating city wastewater treatment plants, with a daily treatment capacity of approximately 391,000 tons in aggregate and the average load rate of wastewater treatment plants stood at 84.4%.

During the Reporting Period, our total wastewater treatment volume amounted to approximately 65.8 million tons, representing an increase of 16.0% as compared with approximately 56.7 million tons for the six months ended 30 June 2020. Our total volume of wastewater treatment with charges for the Reporting Period amounted to approximately 67.4 million tons (including entrusted operation and emergency projects), relatively unchanged as compared with approximately 67.4 million tons for the six months ended 30 June 2020.

As at the end of the Reporting Period, we had a total of 188 wastewater treatment facilities in townships and rural areas of three districts and two counties, namely Jiangyang district, Longma district, Naxi district, Xuyong county and Gulin county, with a daily treatment capacity of approximately 46,000 tons and the average load ratio of our wastewater treatment facilities was 52.3%.

(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 decreased by 20.9% from approximately RMB1,170.6 million for the six months ended 30 June 2020 to approximately RMB925.6 million for the Reporting Period. The decrease was mainly due to a decrease of RMB337.1 million in the revenue from infrastructure construction and upgrade services during the Reporting Period.

1.1.1 Tap water supply

1.1.1.1 Sales of tap water

Revenue of the Group from sales of tap water increased by 12.8% from approximately RMB147.1 million for the six months ended 30 June 2020 to approximately RMB166.0 million for the Reporting Period. The increase was mainly attributable to the increase in tap water sales volume during the Reporting Period. Revenue from sales of tap water accounted for 12.6% and 17.9% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

1.1.1.2 Installation services

Revenue of the Group from installation services increased by 33.1% from approximately RMB170.4 million for the six months ended 30 June 2020 to approximately RMB226.8 million for the Reporting Period. The increase mainly due to the increase in installation of water meters from new users. Revenue from installation services accounted for 14.6% and 24.5% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

1.1.1.3 Construction and upgrade on tap water supply infrastructure

Revenue of the Group from construction and upgrade on tap water supply infrastructure services decreased by 47.8% from approximately RMB352.3 million for the six months ended 30 June 2020 to approximately RMB184.0 million for the Reporting Period. The decrease was mainly due to the fact that Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction during the six months ended 30 June 2020, while these projects were completed during the Reporting Period.

1.1.2 Wastewater treatment

1.1.2.1 Operating services

Revenue of the Group from operating services of wastewater treatment decreased by 0.5% from approximately RMB144.6 million for the six months ended 30 June 2020 to approximately RMB143.9 million for the Reporting Period. The volume of wastewater treatment with charges was 67.4 million tons for each of the six months ended 30 June 2020 and 2021. Revenue from wastewater treatment operation accounted for 12.4% and 15.5% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

1.1.2.2 Interest income

The Group's interest income from wastewater treatment increased by 46.6% from approximately RMB38.0 million for the six months ended 30 June 2020 to approximately RMB55.7 million for the Reporting Period. The increase was mainly due to the increased interest income on receivables as a result of the commencement of operation of Erdaoxi Project Phase III and Xuyong Project Phase II.

1.1.2.3 Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group from construction and upgrade on wastewater treatment infrastructure decreased by 53.1% from approximately RMB318.1 million for the six months ended 30 June 2020 to approximately RMB149.3 million for the Reporting Period. The decrease was mainly attributable to the fact that during the six months ended 30 June 2020, projects such as Erdaoxi Project Phase III and Xuyong Project Phase II were still under construction, and these projects were completed during the Reporting Period.

Chapter IV Management Discussion and Analysis (Continued)

1.2 Cost of Sales and Services

The Group's cost of sales and services decreased by 29.4% from approximately RMB959.5 million for the six months ended 30 June 2020 to approximately RMB677.1 million for the Reporting Period. The decrease was primarily due to the decrease in the cost of infrastructure construction and upgrade services 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 20.1% from approximately RMB123.4 million for the six months ended 30 June 2020 to approximately RMB148.2 million for the Reporting Period. The increase was primarily due to the increase in tap water sales volume and the increase in unit cost as a result of the commencement of operation of water supply pipeline network and other infrastructures.

1.2.1.2 Installation services

The Group's cost of sales and services associated with installation services increased by 52.3% from approximately RMB68.8 million for the six months ended 30 June 2020 to approximately RMB104.8 million for the Reporting Period. The increase was mainly attributable to the increase in the installation works projects.

1.2.1.3 Construction and upgrade on tap water supply infrastructure

The Group's cost of sales and services associated with construction and upgrade on tap water supply infrastructure services decreased by 49.1% from approximately RMB344.2 million for the six months ended 30 June 2020 to approximately RMB175.2 million for the Reporting Period. The decrease was mainly due to the fact that the construction and upgrade on tap water supply infrastructure business decreased during the Reporting Period as compared with the six months ended 30 June 2020. Huangxi Water Plant Project (Phase I), Nanjiao Second Water Plant Project (Phase II) and Naxi Water Plant Project (Phase I) were still under construction during the six months ended 30 June 2020, while these projects were completed during the Reporting Period.

1.2.2 Wastewater treatment

1.2.2.1 Operating services

The Group's cost of sales and services associated with wastewater treatment operating services decreased by 5.0% from approximately RMB105.1 million for the six months ended 30 June 2020 to approximately RMB99.8 million for the Reporting Period. The cost of sales and services associated with wastewater treatment operating services accounted for 11.0% and 14.7% of our total cost of sales and services for the six months ended 30 June 2020 and 2021, respectively.

1.2.2.2 Construction and upgrade on wastewater treatment infrastructure

The cost of sales and services associated with construction and upgrade on wastewater treatment infrastructure decreased by 53.1% from approximately RMB317.9 million for the six months ended 30 June 2020 to approximately RMB149.1 million for the Reporting Period. The decrease was mainly due to the fact that the construction and upgrade projects on wastewater treatment infrastructure businesses decreased during the Reporting Period as compared with the six months ended 30 June 2020. During the six months ended 30 June 2020, projects such as Erdaoxi Project Phase III and Xuyong Project Phase II were still under construction, and these projects were completed during the Reporting Period.

1.3 Gross Profit and Gross Profit Margin

As a result of above, our gross profit increased by 17.7% from approximately RMB211.1 million for the six months ended 30 June 2020 to approximately RMB248.5 million for the Reporting Period. The increase was mainly due to the increase in the gross profit of the installation services, wastewater operating services and construction and upgrade services of infrastructure businesses during the Reporting Period. The gross profit margin increased from 18.0% for the six months ended 30 June 2020 to 26.8% for the Reporting Period. The increase was mainly due to the increase in gross margin generated from the wastewater operating services and construction and upgrade services of infrastructure businesses during the Reporting Period.

Chapter IV Management Discussion and Analysis (Continued)

1.3.1 Tap water supply

1.3.1.1 Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations decreased by 25.0% from approximately RMB23.7 million for the six months ended 30 June 2020 to approximately RMB17.8 million for the Reporting Period. The decrease was due to the higher increase in amortization as a result of commencement of operation of water supply pipe networks and other infrastructure during the Reporting Period. The corresponding gross profit margin decreased from 16.1% for the six months ended 30 June 2020 to 10.7% for the Reporting Period. The decrease was mainly due to the higher increase in amortization as a result of commencement of operation of water supply pipelines networks and other infrastructure during the Reporting Period.

1.3.1.2 Installation services

The gross profit of the Group for installation services increased by 20.1% from approximately RMB101.6 million for the six months ended 30 June 2020 to approximately RMB122.0 million for the Reporting Period. The increase was due to a significant increase in installation service income during the Reporting Period. The corresponding gross profit margin decreased from approximately 59.6% for the six months ended 30 June 2020 to 53.8% for the Reporting Period. The decrease was mainly due to less installation projects with higher gross profit margin during the Reporting Period.

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 8.6% from approximately RMB8.1 million for the six months ended 30 June 2020 to approximately RMB8.8 million for the Reporting Period. The increase was mainly due to higher gross profit from self-constructed projects. The corresponding gross profit margins were 2.3% and 4.8% for the six months ended 30 June 2020 and 2021, respectively.

1.3.2 Wastewater treatment

1.3.2.1 Operating services

The gross profit of the Group for wastewater treatment operating services increased by 11.6% from approximately RMB39.5 million for the six months ended 30 June 2020 to approximately RMB44.1 million for the Reporting Period. The corresponding gross profit margin increased from 27.3% for the six months ended 30 June 2020 to 30.6% for the Reporting Period. The increase was mainly due to the new emergency projects during the Reporting Period which had a relatively high unit price of service fee, and that the Group effectively controlled 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 by 21.6% from approximately RMB162,000.0 for the six months ended 30 June 2020 to approximately RMB197,000.0 for the Reporting Period. The increase was mainly due to a small increase in the gross profit margin of the Group's wastewater treatment infrastructure construction and upgrading services in the industry during the Reporting Period as compared with the six months ended 30 June 2020.

1.4 Other Income, Expenses, Gains and Losses, Net

The Group's other income, expenses, gains and losses, net increased by 104.7% from approximately RMB12.7 million for the six months ended 30 June 2020 to approximately RMB26.0 million for the Reporting Period. The increase was mainly due to the addition of technical consultation services of engineering projects provided by the Group for independent third parties during the Reporting Period, and the water quality inspection service fee, deferred revenue from recognized government grants, etc. increased as compared with those for the six months ended 30 June 2020.

1.5 Distribution and Selling Expenses

The Group's selling and distribution expenses increased by 87.3% from approximately RMB5.5 million for the six months ended 30 June 2020 to approximately RMB10.3 million for the Reporting Period. The increase was primarily due to the policy of the State Council of the PRC on basic pension insurance, unemployment insurance and work-related injury insurance (the "**Three Insurances**"), resulting in the exemption of fees of the Three Insurances and 50% exemption of medical insurance fees by Luzhou Social Security Bureau for the six months ended 30 June 2020, while such policy was no longer effective during the Reporting Period.

Chapter IV Management Discussion and Analysis (Continued)

1.6 Administrative Expenses

The Group's administrative expenses increased by 23.9% from approximately RMB32.2 million for the six months ended 30 June 2020 to approximately RMB39.9 million for the Reporting Period. The increase was primarily due to the policy of the State Council of the PRC on Three Insurances, resulting in the exemption of fees of the three insurances and 50% exemption of medical insurance fees by Luzhou Social Security Bureau during the six months ended 30 June 2020, while such policy was no longer effective during the Reporting Period.

1.7 Finance Costs

The Group's finance costs increased by 27.7% from approximately RMB53.0 million for the six months ended 30 June 2020 to approximately RMB67.7 million for the Reporting Period. The increase was attributable to, on the one hand, the Group's new borrowings at the end of the Reporting Period and, on the other hand, with the commissioning of the new tap water supply projects (Nanjiao Second Water Plant Project (Phase II) Project and Naxi Water Plant Project (Phase I) Project) and the new sewage projects (Erdaoxi Phase III and Xuyong Phase II), the interest on the relevant borrowings was no longer be capitalised and being expensed during the Reporting Period, resulting in an increase in finance costs.

1.8 Income Tax Expense

Although the profit before tax increased, the income tax expense decreased by 19.8% from approximately RMB25.3 million for the six months ended 30 June 2020 to approximately RMB20.3 million for the Reporting Period. For the six months ended 30 June 2020 and 2021, the effective tax rate of the Group were 19.6% and 13.7%, respectively. The decrease in income tax expense from the six months ended 30 June 2020 was mainly due to the declined deferred tax charge. This is attributed to the reason that during the Reporting Period, several large water plants of the Group were recognised from construction work in progress to property, plant and equipment and the tax rate on the reversal of temporary differences arising from the depreciable life of assets generally changed from 15% to 25%.

1.9 Profit after Tax and Profit Margin after Tax

As a result of the above, profit after tax increased by 23.2% from approximately RMB103.9 million for the six months ended 30 June 2020 to approximately RMB128.0 million for the Reporting Period. Profit margin after tax increased from approximately 8.9% for the six months ended 30 June 2020 to 13.8% for the Reporting Period.

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

2.1 Property, Plant and Equipment

The property, plant and equipment of the Group was approximately RMB80.8 million and approximately RMB58.0 million as at 31 December 2020 and the end of the Reporting Period, respectively. The decrease was mainly due to the obtaining of the operating concession for water supply in Leibo County by Leibo Water and the accounting of the relevant infrastructure as intangible assets during the Reporting Period.

2.2 Intangible Assets

The Group's intangible assets were approximately RMB3,511.3 million and approximately RMB3,720.5 million as at 31 December 2020 and the end of the Reporting Period, respectively. The increase was mainly due to the obtaining of the operating concession for water supply in Leibo County by Leibo Water and the accounting of the relevant infrastructure as intangible assets during the Reporting Period, and the completion of the construction and upgrade of engineering projects.

2.3 Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements were approximately RMB1,659.3 million and approximately RMB1,673.9 million as at 31 December 2020 and the end of the Reporting Period, respectively. The increase was mainly due to the commencement of operation of part of Erdaoxi Project Phase III and Xuyong Project Phase II during the Reporting Period.

2.4 Inventories

The Group's inventories (primarily consisted of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation and maintenance) amounted to approximately RMB33.8 million and approximately RMB33.5 million as at 31 December 2020 and the end of the Reporting Period, respectively. The decrease was mainly because the inventories decreased accordingly as the transformation projects were carried out during the Reporting Period.

Chapter IV Management Discussion and Analysis (Continued)

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

	Six months ended 30 June	
	2021	2020
Average inventory turnover days ⁽¹⁾	<u>9</u>	<u>8</u>

- (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 in calculating average inventory turnover days because our inventories 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 increased from 8 days for the six months ended 30 June 2020 to 9 days for the Reporting Period, representing a slight change and maintained at low levels, which was mainly due to enhanced inventory management and maintenance of inventory flow.

2.5 Trade Receivables

Trade receivables of the Group were RMB353.7 million and RMB459.2 million as at 31 December 2020 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2021	2020
Average trade receivables turnover days ⁽¹⁾	<u>79</u>	<u>50</u>

- (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.

Chapter IV Management Discussion and Analysis (Continued)

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 infrastructure construction and upgrade services is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 50 days for the six months ended 30 June 2020 to 79 days for the Reporting Period. Such increase was primarily because of the extension of government financial payments, which resulted in the delayed payment of wastewater treatment fees, while we practically strengthened our management policy on collection of trade receivables.

2.6 Trade Payables

Our trade payables were RMB59.0 million and RMB79.1 million as at 31 December 2020 and the end of the Reporting Period, respectively.

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

	Six months ended 30 June	
	2021	2020
Average trade payables turnover days ⁽¹⁾	<u>18</u>	<u>12</u>

(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 construction and upgrade services from the cost of sales and services because our trade payable include cost of sales and services incurred from our sales of tap water, 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 construction and upgrade services from the cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days increased from 12 days for the six months ended 30 June 2020 to 18 days for the Reporting Period. The increase was mainly due to the addition of more installation services during the Reporting Period, resulting in increased payment for equipment purchase, with the corresponding higher outstanding balance than that as at the end of last period.

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	
	2021	2020
Average trade payables and construction payables turnover days ⁽¹⁾	<u>254</u>	<u>135</u>

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

Our average turnover days of trade and construction payables increased from 135 days for the six months ended 30 June 2020 to 254 days for the Reporting Period. Such increase was mainly due to the increase in construction payables of various tap water supply projects and wastewater treatment projects.

3. Liquidity and Financial Resources

The Group manages its capital to ensure that entities of the Group will be able to continue as going concerns and optimize the debt and equity balance to maximize the return to shareholders of the Company. The Group's overall strategy remains unchanged during the Reporting Period. The capital structure of the Group consists of net debts (which includes borrowings net 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 bank balances and cash of the Group amounted to approximately RMB1,035.3 million (31 December 2020: RMB1,036.2 million).

Chapter IV Management Discussion and Analysis (Continued)

As at the end of the Reporting Period, the total credit granted to the Group was approximately RMB4,224.8 million (31 December 2020: RMB4,144.3 million). As at the end of the Reporting Period, the total borrowings of the Group amounted to approximately RMB2,254.1 million (31 December 2020: RMB2,041.6 million), including bank and other borrowings. Approximately 56.1% of the bank borrowings and other borrowings bear interest at floating rates.

As at the end of the Reporting Period, the net debts to equity ratio of the Group (being calculated by debts (including long-term and short-term borrowings and bonds payable) less bank balances and cash divided by equity attributable to parent company) was 85.5% (31 December 2020: 78.2%).

As at the end of the Reporting Period, the asset-to-debt ratio of the Group (calculated by net debts divided by total assets) increased from approximately 23.6% as at 31 December 2020 to approximately 25.3% as at the end of the Reporting Period. The increase in asset-to-debt ratio was mainly due to the increase in borrowings of the Group during the Reporting Period.

(V) EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 1,162 employees (31 December 2020: 1,142 employees). For the Reporting Period, employee salaries and benefits expenses amounted to RMB71.4 million (six months ended 30 June 2020: RMB68.4 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.

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

Chapter IV Management Discussion and Analysis (Continued)

(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\$399.11 million of the proceeds had been used by the Group in the manner as disclosed in the Prospectus and approximately HK\$1.69 million of the proceeds had not yet been used. It is expected to be fully utilized on or before 30 June 2022.

Use of proceeds	Amount HK\$ million	Amount used HK\$ million	Amount unused HK\$ million
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	38.39	1.69
Total	<u>400.80</u>	<u>399.11</u>	<u>1.69</u>

(VII) MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

During the Reporting Period, the Company has no arrangements for significant investment nor any material acquisitions or disposals of subsidiaries, associates and joint ventures.

(VIII) PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, the Group had secured bank borrowings secured by the operating concessions for all water supply projects of the Company in Jiangyang District and the equity interests in Fanxing Environmental held by the Company, the land use right and charging right for wastewater treatment fees owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for wastewater treatment projects of Fanxing Environmental in townships and rural areas in Jiangyang District, Luzhou City, charging right for wastewater treatment fees of Qingbaijiang Water, properties and charging right for tap water of Weiyuan Qingxi Water, and charging right for wastewater treatment fees of Dechang Water.

Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any 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 unutilized listing proceeds and distributed dividends in Hong Kong dollar, and recognised net foreign exchange gains equivalent to RMB99,000 at the end of the Reporting Period. The Group does not currently hedge its exposure to foreign currencies. The Group will continue to closely monitor the foreign exchange risks and consider hedging significant foreign exchange exposure when necessary.

(X) CONTINGENT LIABILITIES

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

(XI) EQUITY INVESTMENT HELD

As at the end of the Reporting Period, the equity instruments held by the Group amounted to approximately RMB55.09 million (31 December 2020: RMB56.46 million), which represent the Group's equity investments of 12.7% (31 December 2020: 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.

(XII) EVENTS AFTER THE REPORTING PERIOD

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

(XIII) OTHERS

In response to the COVID-19 pandemic, the Chinese Government took mandatory quarantine measures, and the region where the Company is located was identified as a low-risk region. The Company fully implemented the Government's various decisions and arrangements to ensure the safe water supply and wastewater discharge meeting the standards. The Board believes that the COVID-19 pandemic has had basically no impact on the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021.

Chapter V Other Information

1. INTERIM DIVIDENDS

The Board did not recommend the payment of any interim dividends for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

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

3. PRE-EMPTIVE RIGHTS

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

4. CHANGE IN DIRECTORS', SUPERVISORS' AND THE CHIEF EXECUTIVE'S INFORMATION

Since the publication of the 2020 annual report of the Company and up to the date of this interim report, there were no changes of information of Directors, Supervisors and chief executive 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 or its subsidiaries 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 had any business or interest that competes or might compete with the business of the Group or had or might have any other conflict of interest with the Group.

7. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

During 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 as set out in Appendix 10 to the Listing Rules to be notified to the Company and the 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 all the code provisions of 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 of the Company, 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 Supervisory Committee and the senior executives 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 executives 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.

Chapter V Other Information (Continued)

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, the Supervisors and employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities in the Company's securities. The Company has made specific inquiries to all Directors and Supervisors, and all Directors and Supervisors have confirmed that they have strictly complied with the requirements set out in the Model Code during the Reporting Period. In addition, during the Reporting Period, the Company was not aware of any non-compliance of the Model Code by the relevant employees of the Group.

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 ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment ⁽²⁾	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 ⁽²⁾	Beneficial owner	Domestic Shares	62,709,563(L)	9.73%	7.29%
Beijing Enterprises Water Group Limited ⁽³⁾	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%

Chapter V Other Information (Continued)

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Beijing Enterprises Group (BVI) Company Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited ⁽³⁾	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd.* (四川三新創業投資有限責任公司) ⁽⁴⁾⁽⁷⁾	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%
Suntront Intelligence (Hong Kong) Co., Limited ⁽⁵⁾	Beneficial owner	H Shares	16,884,000 (L)	7.86%	1.96%
Suntront Technology Co., Ltd.* (新天科技股份有限公司) ⁽⁵⁾	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Fei Zhanbo (費戰波) ⁽⁵⁾	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) ⁽⁶⁾⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬) ⁽⁷⁾	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd. ⁽⁷⁾	Trustee	H Shares	77,787,000 (L)	36.19%	9.05%
Hwabao Overseas Market Investment II (37-1 QDII Single Fund Trust) ⁽⁷⁾	Trustee	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 ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Hwabao Overseas Market Investment II (20–14 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Overseas Market Investment II (37–3 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Overseas Market Investment II (37–4 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Overseas Market Investment II (20–15 QDII Single Fund Trust) ⁽⁷⁾	Trustee	H Shares	14,635,000 (L)	6.81%	1.70%

- (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 61.70% 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 Water Group Limited is held by Beijing Enterprises Environmental Construction Limited as to 41.12%, which is in turn held as to 100% by Beijing Enterprises Holdings Limited, which is in turn held as to 41.06% by Beijing Enterprises Group (BVI) Company Limited, which is in turn held as to 100% by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.
- (4) Sichuan Development Holding Co., Ltd.* (四川發展(控股)有限責任公司) has 100% interests in Sichuan Sans Venture Capital Co., Ltd.* (四川三新創業投資有限責任公司) 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 35.68% 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. PUBLIC FLOAT

Based on the public information of the Company and to the knowledge of the Board, during the Reporting Period and up to the date of this interim report, at least 25% of the total issued share capital of the Company are held in public hands.

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.

Chapter V Other Information (Continued)

13. SHARE OPTION SCHEME

During the Reporting Period, there was no share option scheme of the Company.

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 interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 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 2021 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 of the Board), 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 Directors, senior management and employees for their valuable contribution and efforts to the development of the Group, and to the Shareholders, customers, suppliers and corporate partners for their constant support.

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

Luzhou, Sichuan Province, the PRC
27 August 2021

* *For identification purposes only*

Chapter VI 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 33 to 70, which comprise the condensed consolidated statement of financial position as of 30 June 2021 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

27 August 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

	NOTES	Six months ended	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue	3		
Tap water supply		166,018	147,105
Wastewater treatment operating services		143,864	144,605
Interest income		55,739	38,030
Installation services		226,765	170,416
Construction and upgrade services of infrastructure		333,260	670,398
		<u>925,646</u>	<u>1,170,554</u>
Total revenue		925,646	1,170,554
Cost of sales and services		<u>(677,094)</u>	<u>(959,472)</u>
Gross profit		248,552	211,082
Other income, expenses, gains and losses, net	5	26,013	12,725
Impairment losses under expected credit loss model, net of reversal	16	(7,741)	(3,888)
Distribution and selling expenses		(10,317)	(5,501)
Administrative expenses		(39,943)	(32,220)
Finance costs	6	(67,739)	(53,039)
Share of loss of an associate		(35)	(5)
Loss on deemed disposal of interest in an associate		(563)	–
		<u>148,227</u>	<u>129,154</u>
Profit before tax	8	148,227	129,154
Income tax expense	7	<u>(20,263)</u>	<u>(25,288)</u>
Profit for the period		<u>127,964</u>	<u>103,866</u>

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

For the six months ended 30 June 2021

	NOTES	Six months ended	
		2021	2020
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("FVTOCI") (before tax)		(768)	(479)
Deferred income tax on fair value loss on investments in equity instruments at fair value through other comprehensive income		192	120
Other comprehensive expense for the period, net of income tax		(576)	(359)
Total comprehensive income for the period		127,388	103,507
Profit for the period attributable to:			
– Owners of the Company		117,952	96,875
– Non-controlling interests		10,012	6,991
		127,964	103,866
Total comprehensive income for the period attributable to:			
– Owners of the Company		117,376	96,516
– Non-controlling interests		10,012	6,991
		127,388	103,507
EARNINGS PER SHARE (RMB)			
– Basic	10	0.14	0.11

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	NOTES	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Non-Current Assets			
Property, plant and equipment	11	57,966	80,814
Right-of-use assets		82,480	83,717
Contract assets	15	257,377	210,881
Investment properties		13,868	14,323
Goodwill		25,278	25,278
Intangible assets	12	3,720,474	3,511,312
Equity instruments at FVTOCI		1,086	1,854
Interest in an associate		54,004	54,602
Prepayments and other receivables	14	31,093	42,696
Receivables under service concession arrangements	12	1,642,644	1,629,149
Deferred tax assets		31,731	28,964
		<u>5,918,001</u>	<u>5,683,590</u>
Current Assets			
Inventories		33,539	33,825
Receivables under service concession arrangements	12	31,259	30,147
Trade receivables	13	459,228	353,667
Prepayments and other receivables	14	71,221	53,926
Prepaid income tax		17,370	14,132
Contract assets	15	24,135	18,531
Bank balances and cash	17	1,035,310	1,036,193
		<u>1,672,062</u>	<u>1,540,421</u>
Current Liabilities			
Trade payables	19	79,145	58,988
Other payables	20	1,070,394	1,126,272
Tax liabilities		6,010	4,145
Borrowings	18	459,443	509,744
Lease liabilities		128	128
Provisions	22	13,868	13,253
Contract liabilities	21	345,468	277,693
Deferred income – government grants		14,554	13,768
Bonds payable	23	499,273	–
		<u>2,488,283</u>	<u>2,003,991</u>
Net Current Liabilities		<u>(816,221)</u>	<u>(463,570)</u>
Total Assets Less Current Liabilities		<u>5,101,780</u>	<u>5,220,020</u>

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2021

	NOTES	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Capital and Reserves			
Share capital	24	859,710	859,710
Reserves		<u>1,383,356</u>	<u>1,316,927</u>
Equity attributable to owners of the Company		<u>2,243,066</u>	2,176,637
Non-controlling interests		<u>181,671</u>	<u>156,295</u>
Total Equity		<u>2,424,737</u>	<u>2,332,932</u>
Non-Current Liabilities			
Deferred tax liabilities		20,466	20,749
Borrowings	18	1,794,699	1,531,824
Lease liabilities		199	199
Provisions	22	384,998	355,073
Deferred income – government grants		277,346	281,717
Bonds payable	23	<u>199,335</u>	<u>697,526</u>
		<u>2,677,043</u>	<u>2,887,088</u>
		<u>5,101,780</u>	<u>5,220,020</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	FVTOCI reserve	Capital reserve	Statutory surplus reserves	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Note)				
For the six months ended								
30 June 2020 (unaudited)								
At 1 January 2020 (audited)	859,710	3,101	418,386	80,017	658,198	2,019,412	108,066	2,127,478
Profit for the period	-	-	-	-	96,875	96,875	6,991	103,866
Other comprehensive expense for the period	-	(359)	-	-	-	(359)	-	(359)
Total comprehensive (expense) income for the period	-	(359)	-	-	96,875	96,516	6,991	103,507
Appropriation for the period	-	-	-	3,723	(3,723)	-	-	-
2019 final dividend declared (Note 9)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Capital contribution by non-controlling equity owners of subsidiaries	-	-	-	-	-	-	28,522	28,522
At 30 June 2020 (unaudited)	<u>859,710</u>	<u>2,742</u>	<u>418,386</u>	<u>83,740</u>	<u>699,767</u>	<u>2,064,345</u>	<u>143,579</u>	<u>2,207,924</u>
For the six months ended								
30 June 2021 (unaudited)								
At 1 January 2021 (audited)	859,710	566	418,386	109,113	788,862	2,176,637	156,295	2,332,932
Profit for the period	-	-	-	-	117,952	117,952	10,012	127,964
Other comprehensive expense for the period	-	(576)	-	-	-	(576)	-	(576)
Total comprehensive (expense) income for the period	-	(576)	-	-	117,952	117,376	10,012	127,388
Appropriation for the period	-	-	-	7,484	(7,484)	-	-	-
2020 final dividend declared (Note 9)	-	-	-	-	(51,583)	(51,583)	-	(51,583)
Capital contribution by non-controlling equity owners of a subsidiary	-	-	636	-	-	636	15,364	16,000
At 30 June 2021 (unaudited)	<u>859,710</u>	<u>(10)</u>	<u>419,022</u>	<u>116,597</u>	<u>847,747</u>	<u>2,243,066</u>	<u>181,671</u>	<u>2,424,737</u>

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 transfer to 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 2021

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	199,379	(175,388)
INVESTING ACTIVITIES		
Interest received	2,963	3,092
Purchases of property, plant and equipment and construction and upgrade services of infrastructure	(369,460)	(279,099)
Refund of prepayments for land use rights	15,500	-
Government grants received	1,745	7,888
Proceeds on disposal of property, plant and equipment	18	437
Investment in an associate	-	(1,750)
Payment of security deposits for other borrowings	-	(750)
NET CASH USED IN INVESTING ACTIVITIES	(349,234)	(270,182)
FINANCING ACTIVITIES		
Capital contribution by non-controlling equity owners of a subsidiary	16,000	2,163
Proceeds from new borrowings	468,566	501,410
Repayments of borrowings	(259,942)	(193,442)
Payment of interest expenses	(75,651)	(69,586)
Repayments of lease liabilities	(1)	(18)
NET CASH FROM FINANCING ACTIVITIES	148,972	240,527
NET DECREASE IN CASH AND CASH EQUIVALENTS	(883)	(205,043)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,036,193	1,095,877
Effect of foreign exchange rate changes	-	24
CASH AND CASH EQUIVALENTS AT 30 JUNE,		
represented by:		
Bank balances and cash	1,035,310	890,858

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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 Group had net current liabilities of RMB816,221,000 as at 30 June 2021. In the opinion of the Directors, the condensed consolidated financial statements of the Group have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations and the banking facilities available to the Group as at 30 June 2021. The Directors believe the existing short term bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity dates based on prior experiences. As at 30 June 2021, the Group had available unutilised bank loan facilities of RMB1,177,000,000.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements.

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Type of services		
Tap water supply		
– Tap water	166,018	147,105
– Installation services	226,765	170,416
– Construction and upgrade services of tap water supply infrastructure	183,990	352,335
	<u>576,773</u>	<u>669,856</u>
Wastewater treatment		
– Operating services	143,864	144,605
– Construction and upgrade services of wastewater treatment infrastructure	149,270	318,063
	<u>293,134</u>	<u>462,668</u>
Revenue from contracts with customers	<u>869,907</u>	1,132,524
Wastewater treatment		
– Interest income	55,739	38,030
Revenue	<u>925,646</u>	<u>1,170,554</u>
Timing of revenue recognition		
At a point in time	309,882	291,710
Over time	560,025	840,814
	<u>869,907</u>	<u>1,132,524</u>
Type of customer		
Government	482,905	826,270
Non-government	387,002	306,254
	<u>869,907</u>	<u>1,132,524</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

3. REVENUE (CONTINUED)

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

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

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.

In addition, the wastewater treatment segment includes certain subsidiaries of the Company providing wastewater treatment services and 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, "Wastewater treatment segment", because, in the opinion of the directors of the Company, they have similar economic characteristics and provide wastewater treatment services and related construction and upgrade services in the PRC under similar production processes to similar classes of customers in the same regulatory environment.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	166,018	147,105
– Installation services	226,765	170,416
– Construction and upgrade services of tap water supply infrastructure	183,990	352,335
– Inter-segment sales*		
– Tap water	210	47
Wastewater treatment		
– From external customers		
– Operating services	143,864	144,605
– Interest income on receivables under service concession arrangements and contract assets	55,739	38,030
– Construction and upgrade services of wastewater treatment infrastructure	149,270	318,063
Elimination*	(210)	(47)
Revenue	<u>925,646</u>	<u>1,170,554</u>
Segment results		
– Tap water supply**	71,312	52,411
– Wastewater treatment	56,652	51,455
Profit after tax	<u>127,964</u>	<u>103,866</u>

* Inter-segment sales for the six months ended 30 June 2020 and 2021 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

4. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

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

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Segment assets		
– Tap water supply	4,606,517	4,379,161
– Wastewater treatment	2,983,546	2,894,850
Elimination	–	(50,000)
Consolidated total assets	<u>7,590,063</u>	<u>7,224,011</u>
Segment liabilities		
– Tap water supply	3,298,356	3,106,153
– Wastewater treatment	1,866,970	1,834,926
Elimination	–	(50,000)
Consolidated total liabilities	<u>5,165,326</u>	<u>4,891,079</u>

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 2021

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

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	2,963	3,092
Deferred income in respect of government grants recognised	4,603	3,274
Value-added-tax ("VAT") refunds (Note (a))	1,633	3,107
Commission income on garbage fees collected for governmental bureau	2,020	2,204
Late charges on tap water users	2,084	519
Rental income less outgoings (Note (b))	252	229
Gains on disposal of property, plant and equipment, net	304	321
Donations	(2)	(134)
Foreign exchange gains, net	99	24
Consultation services income (Note (c))	6,604	–
Gain (loss) on sale of equipments and materials	1,586	(204)
Water quality inspection fees	3,095	380
Others	772	(87)
	26,013	12,725

Notes:

- 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.
- Rental income are all generated from operating leases, and related lease payments are fixed.
- The amount represents the consulting services provided to two independent third parties for rendering consultancy services of infrastructure.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

6. FINANCE COSTS

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	48,296	32,596
Interest on other borrowings	11,355	10,000
Unwinding of the discount (Note 22)	8,476	6,826
Interest on lease liabilities	1	1
Interest on bonds payable (Note 23)	20,304	20,285
	88,432	69,708
Less: Amounts capitalised in qualified assets	(20,693)	(16,669)
	67,739	53,039

Borrowing costs capitalised during the six months ended 30 June 2021 arose on the specific and general borrowing pool and the latter is calculated by applying a capitalisation rate of 4.62% (six months ended 30 June 2020: (unaudited) 5.18%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax	23,121	21,100
Deferred tax – current period	(2,858)	(3,159)
Deferred tax – attributable to change in tax rate (Note (a))	–	7,347
Total income tax recognised in profit or loss	20,263	25,288

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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 2021 (six months ended 30 June 2020: (unaudited) 25%), except for the following group entities:

Name of company	Applicable EIT rate	
	Six months ended 2021	Six months ended 2020
The Company (Note (a))	15%	15%
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%	15%
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%	15%
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%	15%
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%	15%
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) (Note (a))	15%	15%
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) (“ Sitong Engineering ”) (Note (c))	20%	20%
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))	7.5% or 15%	7.5% or 15%
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) (“ Sitong Design ”) (Note (c))	20%	20%
瀘州市興合水環境治理有限公司 (Luzhou Xinghe Water Governance Co., Ltd.) (Note (a))	15%	15%

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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 2021 (six months ended 30 June 2020: (unaudited) 25%), except for the following group entities: (Continued)

Name of company	Applicable EIT rate	
	Six months ended 2021	Six months ended 2020
興瀘水務(集團)威遠清溪水務有限公司 (Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd.) (Note (a))	15%	15%
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.) (Note (a))	15%	15%
瀘州市興瀘水務(集團)興叙水業有限公司 (Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (“ Xingxu Water ”) (Note (c))	20%	25%
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%	20%
瀘州市繁星環保發展有限公司 (Luzhou Fanxing Environmental Development Co., Ltd.) (“ Fanxing Environmental ”) (Note (b))	nil or 12.5%	nil
叙永縣永星水環境治理有限公司 (Xuyong Yongxing Water Governance Co., Ltd) (“ Yongxing Water ”) (Note (c))	20%	20%
德昌縣興瀘水務有限公司 (Dechang Xinglu Water Co., Ltd.) (“ Dechang Water ”) (Note (c))	20%	20%
雷波縣興瀘水務有限公司 (Leibo Xinglu Water Co., Ltd.) (“ Leibo Water ”) (Note (c))	20%	20%
瀘州市興瀘智慧水務科技有限責任公司 (Zhihui Water Science and Technology Co., Ltd.) (“ Zhihui Water ”) (Note (c))	20%	N/A

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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.

In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, 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% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% 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 60% of their total revenue for the year ending 31 December 2021. 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 7.5% for the six months ended 30 June 2020 and 2021.

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. The Luzhou Rural area and Gulin County Rural area of Fanxing Environmental commenced production and operation in 2018 and 2019, respectively. So the EIT rate is nil for the six months ended 30 June 2020. For the six months ended 30 June 2021, the EIT rate of Luzhou Rural area is 12.5% and the EIT rate of Gulin County Rural area is still nil.

- 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]), Sitong Engineering, Sitong Design, Xingxu Water, Leshan Xingjia, Yongxing Water, Dechang Water, Leibo Water and Zhihui Water enjoy the preferential tax rate of 20% and are entitled to be exempted from EIT in respect of 75% of the income generated.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

8. PROFIT BEFORE TAX

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	5,055	4,388
Depreciation of investment properties	322	241
Amortisation of intangible assets	82,090	53,192
Depreciation of right-of-use assets	1,237	916
	<u>88,704</u>	<u>58,737</u>
Total depreciation and amortisation		
Staff costs (including the directors' and supervisors' remuneration):		
– Salaries, wages and welfare	59,345	64,386
– Retirement benefit scheme contributions	12,058	3,980
	<u>71,403</u>	<u>68,366</u>
Total staff costs		
and after crediting:		
Gross rental income from investment properties	574	486
Less: Direct operating expenses incurred for investment properties that generated rental income	(322)	(257)
	<u>252</u>	<u>229</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 2020 (six months ended 30 June 2020: (unaudited) RMB51,583,000 or RMB0.06 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 2021 (six months ended 30 June 2020: (unaudited) nil).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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	
	2021	2020
	(unaudited)	(unaudited)
Profit for the period attributable to owners of the Company (RMB'000)	<u>117,952</u>	<u>96,875</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 2021 and 2020 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 transferred certain plant and machinery of Leibo Water with an aggregate of RMB20,227,000 to intangible assets as the Group had entered into a concession agreement with Leibo County Housing and Urban-Rural Development Bureau (雷波縣住房和城鄉建設局) for tap water supply operations in Leibo County area.

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 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 or the infrastructure is transferred to the grantors at nil consideration at the end of the relevant service concession periods.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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.

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a contract asset (during construction phase) or a financial asset (receivable under a service concession arrangement) (upon completion of construction and commencement of operation) or a combination of such, as appropriate.

During the current period, the Group had entered into a concession agreement with Leibo County Housing and Urban-Rural Development Bureau (雷波縣住房和城鄉建設局) for tap water supply operations in Leibo County area. The tenure of the service concession period is for 30 years, from 1 July 2020 to 30 June 2050. During the service concession period of the aforesaid service concession arrangements, the Group has responsibilities including, amongst others, provision of uninterrupted tap water supply service, maintaining serviceability of the tap water supply infrastructure and quality monitoring and inspection procedures of tap 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 priority to extend the concession right if the Group's performance during the concession period is satisfactory.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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:

	RMB'000
Cost	
At 31 December 2020 (audited)	3,991,288
Additions	<u>291,252</u>
At 30 June 2021 (unaudited)	<u>4,282,540</u>
Accumulated amortisation	
At 31 December 2020 (audited)	(479,976)
Amortisation for the period	<u>(82,090)</u>
At 30 June 2021 (unaudited)	<u>(562,066)</u>
Carrying amounts	
At 30 June 2021 (unaudited)	<u><u>3,720,474</u></u>
At 31 December 2020 (audited)	<u><u>3,511,312</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.

As at 30 June 2021, intangible assets recognised under service concession arrangements of RMB917 million (31 December 2020: (audited) RMB1,028 million) have yet available for use and have been allocated to individual cash generating units ("CGUs") in tap water supply and wastewater treatment segments. The Group engaged an independent valuer, Cushman & Wakefield, to determine the recoverable amount of each CGU as at 31 December 2020 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging from 11.8% to 13.8%. No growth in cash flows of CGUs beyond the five-year period is assumed. Other assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs 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 tap water supply 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 are still applicable as at 30 June 2021, the directors of the Company determine that there is no impairment of any of its CGUs containing the Group's intangible assets not available for use as at 30 June 2021.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

12. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

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:

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Non-current portion	1,642,644	1,629,149
Current portion	31,259	30,147
	1,673,903	1,659,296

Expected collection schedule is analysed as follows:

Within one year	31,259	30,147
More than one year, but not exceeding two years	36,117	33,872
More than two years, but not exceeding three years	40,547	38,397
More than three years, but not exceeding four years	43,647	42,466
More than four years, but not exceeding five years	46,092	44,791
Over five years	1,476,241	1,469,623
	1,673,903	1,659,296

The effective rates for the above financial assets fall within the range from 3.51% to 6.33% (31 December 2020: (audited) 3.51% to 6.33%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

13. TRADE RECEIVABLES

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Trade receivables	470,578	357,922
Less: Allowance for credit losses	<u>(11,350)</u>	<u>(4,255)</u>
	<u>459,228</u>	<u>353,667</u>

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

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Within 3 months	156,780	203,759
Between 3 months and 6 months	33,146	62,271
Between 6 months and 12 months	188,996	49,692
Over 1 year	<u>80,306</u>	<u>37,945</u>
	<u>459,228</u>	<u>353,667</u>

As at 30 June 2021, included in the Group's trade receivables are wastewater treatment fees receivables due from local governmental bureau with gross carrying amounts aggregating to RMB270,542,000 (31 December 2020: (audited) RMB87,658,000) which has been past due over 90 days and is not considered as default since most is due from local government bureau mainly due to the increase in volume of wastewater treatment for the six months ended 30 June 2021 that increased the governmental procedures and time for settlement by the related government bureau that is similar with previous years and the rest is due from certain corporate customers related to installation services as they normally settle the outstanding balances after 90 days overdue with reference to their historical settlement pattern. The Group does not hold any collateral over these balances.

Details of the impairment assessment are set out in note 16.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Prepayments for inventories	33,650	22,260
Prepayments for land use rights	–	15,500
Other receivables (Note)	23,250	22,573
Prepaid VAT	43,051	34,205
Refundable security deposits for sale and leaseback arrangements (note 18 (f))	6,200	6,200
Less: Allowance for credit losses	<u>(3,837)</u>	<u>(4,116)</u>
	102,314	96,622
Less: Amounts classified as non-current assets	<u>(31,093)</u>	<u>(42,696)</u>
Current assets	<u>71,221</u>	<u>53,926</u>

Note: Other receivables mainly include various receivables due from local governmental bureau in respect of certain construction projects incurred on their behalf and various refundable deposits as at 30 June 2021 and 31 December 2020.

Details of impairment assessment of other receivables are set out in note 16.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

15. CONTRACT ASSETS

The contract assets of the Group relate to their right to consideration for provision of construction and upgrade 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:

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Provision of construction and upgrade services on wastewater treatment infrastructure (Note (a))	257,377	210,881
Provision of installation services (Note (b))	27,666	21,137
Less: Allowance for credit losses on the provision of installation services	<u>(3,531)</u>	<u>(2,606)</u>
	281,512	229,412
Less: Portion classified as non-current	<u>(257,377)</u>	<u>(210,881)</u>
Current portion	<u><u>24,135</u></u>	<u><u>18,531</u></u>

Notes:

- (a) These contract assets arose from the Group's construction and upgrade services on wastewater treatment infrastructure that the Group is provided with 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. As the contract assets are not expected to be settled within one year from the end of the reporting period, the whole balance is classified as non-current.
- (b) These contract assets arose from the Group's provision of installation services and are transferred to trade receivables when such right become unconditional.

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

Details of the impairment assessment are set out in note 16.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

16. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment loss recognised (reversed) in respect of		
Trade receivables		
– installation services	7,095	2,402
Contract assets		
– installation services	925	597
Other receivables	(279)	889
	<u>7,741</u>	<u>3,888</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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

17. BANK BALANCES AND CASH

As at 30 June 2021, the bank balances carry interest at prevailing market interest rates ranging from 0.01% to 1.89% (31 December 2020: (audited) from 0.01% to 1.89%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

18. BORROWINGS

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Unsecured bank borrowings without corporate guarantee (Note (a))	349,800	291,000
Unsecured bank borrowings with corporate guarantee (Note (b))	866,843	770,645
Secured bank borrowings (Note (c))	435,120	297,795
Unsecured other borrowings (Notes (d) and (g))	464,187	500,137
Unsecured other borrowing with corporate guarantee (Notes (e) and (g))	45,768	45,000
Secured other borrowings (Note (f))	92,424	136,991
	2,254,142	2,041,568
The carrying amounts repayable:		
Within one year or on demand	451,745	464,146
Within a period of more than one year but not exceeding two years	175,803	167,392
Within a period of more than two years but not more than five years	571,764	513,472
Within a period of more than five years	1,047,132	850,960
The carrying amount of other borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable within one year	7,698	45,598
	2,254,142	2,041,568
Less: Amounts due within one year shown under current liabilities	(459,443)	(509,744)
Amount shown under non-current liabilities	1,794,699	1,531,824
The Group's borrowings are analysed as:		
– At fixed rates	989,989	907,329
– At floating rates*	1,264,153	1,134,239
	2,254,142	2,041,568

* These borrowings carry interest at Loan Prime Rates set by The People's Bank of China plus margins.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

18. BORROWINGS (CONTINUED)

Notes:

- (a) As at 30 June 2021, the unsecured bank borrowings are a bank borrowing of RMB41,000,000 bearing interest at fixed rate of 3.90% per annum, a bank borrowing of RMB100,000,000 bearing interest at fixed rate of 3.92% per annum, a bank borrowing of RMB9,000,000 bearing interest at fixed rate of 3.90% per annum and a bank borrowing of RMB50,000,000 bearing interest at fixed rate of 3.85% per annum. The remaining bank borrowings of RMB149,800,000 bear interest at floating rates ranging from 3.90% to 4.90% per annum. These bank borrowings are repayable from October 2021 to October 2030.

As at 31 December 2020, the unsecured bank borrowings included a bank borrowing of RMB41,000,000 bearing interest at a fixed rate of 3.90% per annum and a bank borrowing of RMB100,000,000 bearing interest at a fixed rate of 3.92% per annum. The remaining of bank borrowings of RMB150,000,000 bore interest at floating rates ranging from 4.35% to 4.90% per annum. These bank borrowings were repayable from January 2021 to October 2030.

- (b) As at 30 June 2021, included in the unsecured bank borrowings are bank borrowings of RMB42,700,000 bearing interest at a fixed rate of 7.50% per annum, the remaining unsecured bank borrowings of RMB824,143,000 bear interest at floating rates of 3.10% to 5.78% per annum. These unsecured bank borrowings are repayable from November 2021 to April 2036 and their repayments are guaranteed by the group companies.

As at 31 December 2020, included in the unsecured bank borrowings were bank borrowings of RMB44,200,000 bearing interest at a fixed rate of 7.50% per annum, the remaining unsecured bank borrowings of RMB726,445,000 bore interest at floating rates ranging from 3.10% to 5.78% per annum. These unsecured bank borrowings were repayable from April 2021 to December 2035 and their repayments were guaranteed by the group companies.

- (c) (i) As at 30 June 2021, the bank borrowings are comprised of the following:
- Bank borrowing of RMB120,480,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 5.88% per annum and is repayable by instalments from December 2021 to April 2027.
 - Bank borrowings of RMB10,000,000 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 in December 2021. The repayment of the bank borrowings are guaranteed by the group companies.
 - Bank borrowings of RMB37,000,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from December 2021 to January 2027. The repayment of the bank borrowings are guaranteed by 瀘州市興瀘融資擔保集團有限公司 (Luzhou City Xinglu Financing Guarantee Group Co., Ltd.) ("Xinglu Financing Guarantee", a fellow subsidiary).
 - Bank borrowings of RMB35,000,000 are secured by certain property, plant and equipment of RMB950,000, certain intangible assets of RMB7,000,000, certain right-of-use assets of RMB570,000 and certain Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 5.20% per annum and are repayable by instalments from February 2022 to February 2024.
 - Bank borrowings of RMB50,000,000 are secured by the Group's equity in Fanxing Environmental, bear interest at a floating rate of 4.93% per annum and are repayable by instalments from December 2021 to August 2026. The repayment of the bank borrowings are guaranteed by the group companies.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

18. BORROWINGS (CONTINUED)

Notes: (Continued)

(c) (i) As at 30 June 2021, the bank borrowings are comprised of the following: (Continued)

- Bank borrowings of RMB79,930,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from January 2022 to July 2035. The repayment of the bank borrowings are guaranteed by the group companies.
- Bank borrowings of RMB72,910,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a fixed rate of 7.00% per annum and are repayable by instalments from December 2021 to December 2032. The repayment of the bank borrowings are guaranteed by the group companies.
- Bank borrowings of RMB29,800,000 are secured by the Group's charging right for certain wastewater treatment fees, bear interest at a floating rate of 5.88% per annum and are repayable by instalments from October 2023 to October 2035.

(ii) As at 31 December 2020, the bank borrowings were comprised of the following:

- Bank borrowing of RMB129,280,000 was secured by the Group's charging right for certain tap water supply fees, bore interest at a floating rate of 5.88% per annum and was repayable by instalments from June 2021 to April 2027.
- Bank borrowings of RMB20,000,000 were secured by the Group's charging right for certain wastewater treatment fees and certain land, bore interest at a floating rate of 5.64% per annum and were repayable by instalments from June 2021 to December 2021. The repayment of the bank borrowings were guaranteed by the group companies.
- Bank borrowings of RMB40,000,000 were secured by the Group's charging right for certain wastewater treatment fees, bore interest at a fixed rate of 7.00% per annum and were repayable by instalments from June 2021 to January 2027. The repayment of the bank borrowings were guaranteed by Xinglu Financing Guarantee.
- Bank borrowings of RMB55,000,000 were secured by the Group's equity in Fanxing Environmental, bore interest at a floating rate of 4.93% per annum and were repayable by instalments from June 2021 to August 2026. The repayment of the bank borrowings were guaranteed by the group companies.
- Bank borrowings of RMB53,515,000 were secured by the Group's charging right for certain wastewater treatment fees, bore interest at a floating rate of 4.90% per annum and were repayable by instalments from January 2022 to July 2035. The repayment of the bank borrowings were guaranteed by the group companies.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

18. BORROWINGS (CONTINUED)

Notes: (Continued)

- (d) (i) As at 30 June 2021, the other borrowings were comprised of the following:
- Other borrowings of RMB7,698,000 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 local government bureau, bears interest at fixed rate of 3.41% per annum and is repayable on March 2026.
 - A loan of RMB40,000,000 is from local government bureau, bears interest at fixed rate of 3.25% per annum and is repayable on August 2030.
 - A loan of RMB165,000,000 is from local government bureau, bears interest at fixed rate of 3.72% per annum and is repayable on August 2035.
 - A loan of RMB200,000,000 is from local government bureau, bears interest at fixed rate of 3.98% per annum and is repayable on August 2050.
- (ii) As at 31 December 2020, the other borrowings were comprised of the following:
- Other borrowings of RMB45,598,000 from independent third parties bore interest at fixed rates ranging from nil to 8.02% per annum and were repayable on demand.
 - A loan of RMB130,000,000 was from local government bureau, bore interest at fixed rate of 3.41% per annum and was repayable on March 2026.
 - A loan of RMB40,000,000 was from local government bureau, bore interest at fixed rate of 3.25% per annum and was repayable on August 2030.
 - A loan of RMB165,000,000 was from local government bureau, bore interest at fixed rate of 3.72% per annum and was repayable on August 2035.
 - A loan of RMB200,000,000 was from local government bureau, bore interest at fixed rate of 3.98% per annum and was repayable on August 2050.
- (e) The other borrowing represents a borrowing of RMB66,000,000 from China Agriculture Development Key Construction Fund Co., Ltd., bearing 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

18. BORROWINGS (CONTINUED)

Notes: (Continued)

- (f) On 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 RMB200,000,000. As the sale and leaseback arrangement did not satisfy the requirements of IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) as a sale, accordingly, the transfer proceeds of RMB193,400,000 (net of issue costs of RMB6,600,000) was accounted for as borrowing within the scope of IFRS 9 *Financial Instruments* (“IFRS 9”). As at 30 June 2021, the borrowing was secured by certain tap water supply infrastructure and a refundable security deposit of RMB5,000,000 (2020: RMB5,000,000) of the Group, bore interest at a fixed rate of 4.28% (2020: 4.28%) per annum and was repayable by instalments up to April 2024. At end of the reporting period, the outstanding borrowings amounted to RMB45,966,000 (2020: RMB80,216,000).

On 23 December 2019, the Group entered into another sale and leaseback arrangement of certain wastewater treatment infrastructure, with a carrying amount of RMB114,390,200, with a financial institution for a consideration of RMB100 million. The Group has drawn down RMB30,000,000 on 24 December 2019 and RMB50,000,000 on 18 May 2020, respectively. As the sale and leaseback arrangement does not satisfy the requirements of IFRS 15 as a sale accordingly, the aggregate transfer proceeds of RMB77,680,000 (net of aggregate issue costs of RMB2,320,000) is accounted for as borrowing within the scope of IFRS 9. As at 30 June 2021, the borrowings are secured by certain wastewater treatment infrastructure and a refundable security deposit of RMB1,200,000 (2020: RMB1,200,000) of the Group. The borrowing of RMB29,130,000 bears interest at a fixed rate of 4.28% per annum and the remaining borrowing of RMB48,550,000 bear interest at a fixed rate of 3.90% per annum. These borrowings are repayable by instalments up to May 2025. At end of the reporting period, the outstanding borrowings amounted to RMB46,458,000 (2020: RMB56,775,000).

- (g) At 31 December 2020, the Group had received from the government loans at below-market rates of interest with aggregate proceeds of RMB601,000,000, including the unsecured other borrowing with corporate guarantee amounting to RMB66,000,000 in note 18(e), to finance the construction of certain infrastructures. The initial fair values of the related loans were RMB499,539,000. The initial benefits derived from such loans of RMB101,461,000, that represent the difference between the proceeds and the initial fair values of the loans, were recognised as deferred income and will be recognised in profit or loss on the same basis as depreciation for the related infrastructures.

Such government loans are measured at amortised cost using the effective interest method. At 30 June 2021, the carrying amounts of unsecured other borrowings (without corporate guarantee) and unsecured other borrowing (with corporate guarantee) were RMB456,489,000 and RMB45,768,000, respectively.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

19. TRADE PAYABLES

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

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Within 6 months	49,980	44,378
Between 6 months and 12 months	15,927	3,823
Over 1 year	13,238	10,787
	79,145	58,988

The credit period on purchases are generally within 6 months.

20. OTHER PAYABLES

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Dividends payable:		
– Luzhou City Xinglu Investment Group Co., Ltd. (“Xinglu Investment”) (the immediate holding company of the Company)	30,699	–
– Luzhou Laojiao Group Co., Ltd. (“Luzhou Laojiao”)	4,224	–
– Luzhou City Infrastructure Investment Co., Ltd.	3,763	–
– H-share shareholders	12,897	–
Wages and welfare payable	33,980	50,175
Other taxes payable	12,199	11,557
Construction payables	841,140	929,819
Payables for purchases of wastewater treatment plants	5,420	5,420
Payables to governmental bureau	63,748	59,737
Interest payable on borrowings	21,929	11,202
Interest payable on bonds payable	11,739	22,467
Other payables	28,656	35,895
	1,070,394	1,126,272

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

21. 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.

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Provision of installation services	292,913	235,528
Provision of tap water supply	52,113	42,165
Sales of equipment	442	-
	<u>345,468</u>	<u>277,693</u>

22. PROVISIONS

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
At beginning of the period/year	368,326	297,438
Provisions recognised	23,912	59,431
Unwinding of the discount (Note 6)	8,476	14,234
Payments	(1,848)	(2,777)
At end of the period/year	398,866	368,326
Less: Amount classified as current liabilities	(13,868)	(13,253)
Non-current portion	<u>384,998</u>	<u>355,073</u>

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 *Provisions, Contingent Liabilities and Contingent Assets* 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 2021 is 4.65% (31 December 2020: (audited) 4.65%) per annum.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

23. BONDS PAYABLE

On 26 April 2019, the Company issued the first tranche of the corporate bonds in the principal amount of RMB500,000,000 (with issue cost of RMB2,450,000), which are unsecured, will mature in April 2024 and have a coupon rate of 5.99% per annum. On 23 September 2019, the Company issued the second tranche of the corporate bonds in the principal amount of RMB200,000,000 (with issue cost of RMB980,000), which are unsecured, will mature in September 2024 and have a coupon rate of 5.00% per annum. The Company has a right to adjust the coupon rate of the corporate bonds upward or downward in April 2022 and September 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 and September 2022, respectively. 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 RMB715 million (31 December 2020: (audited) RMB715 million) as at 30 June 2021.

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

	First tranche RMB'000	Second tranche RMB'000	Total RMB'000
At 31 December 2020 (audited)	498,285	199,241	697,526
Interest accrued for in the period (Note 6)	15,210	5,094	20,304
Interest payable included in other payables	(14,222)	(5,000)	(19,222)
At 30 June 2021 (unaudited)	<u>499,273</u>	<u>199,335</u>	698,608
Less: Amount classified as current liabilities			<u>(499,273)</u>
Non-current portion			<u>199,335</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

24. SHARE CAPITAL

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
At beginning and end of the period/year	<u>859,710</u>	<u>859,710</u>
	'000	'000
Shares of RMB1 each		
– Domestic shares	644,770	644,770
– H shares	<u>214,940</u>	<u>214,940</u>
	<u>859,710</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.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the financial assets 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.

Information about the valuation techniques and inputs used in determining the fair values of various financial assets are disclosed below.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Unquoted equity investments at fair value		
Others	<u>1,086</u>	<u>1,854</u>

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

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the condensed consolidated financial statements approximate their fair values.

	As at 30 June 2021		As at 31 December 2020	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Bonds payable (Level 1)	<u>698,608</u>	<u>715,000</u>	<u>697,526</u>	<u>715,000</u>

The fair value of bonds payable was based on quoted market price.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity investments RMB'000
At 31 December 2019 (audited)	57,765
Net fair value loss recognised in other comprehensive expense	(386)
Derecognition of investment in equity instrument at FVTOCI	<u>(55,525)</u>
At 31 December 2020 (audited)	1,854
Net fair value loss recognised in other comprehensive expense	<u>(768)</u>
At 30 June 2021 (unaudited)	<u><u>1,086</u></u>

Net fair value loss in other comprehensive expense related to equity instruments at FVTOCI held at the end of the current reporting period is reported as change in "FVTOCI reserve".

26. CAPITAL COMMITMENTS

	As at 30 June 2021 RMB'000 (unaudited)	As at 31 December 2020 RMB'000 (audited)
Capital expenditure contracted but not provided for constructing and upgrading infrastructure	<u><u>1,131,356</u></u>	<u><u>1,021,354</u></u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

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/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 transactions with Luzhou Laojiao (which is controlled by the PRC government) and the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

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

Transactions	Relationship	Six months ended	
		2021 RMB’000 (unaudited)	2020 RMB’000 (unaudited)
Tap water supply			
– Xinglu Investment	An immediate holding company	12	3
– Luzhou Laojiao	A shareholder	158	124
– Other companies	Fellow subsidiaries	2,797	2,163
Installation service income			
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	A fellow subsidiary	–	2,071
– Luzhou Xinglu Jutai Construction Co., Ltd.	A fellow subsidiary	3,589	–
– Other companies	Fellow subsidiaries	824	3,046
Water quality testing income			
– Luzhou Laojiao	A shareholder	–	3
Property management fees	A fellow subsidiary	(1,992)	(2,055)
Installation service cost	A fellow subsidiary	(1,500)	–

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2021

27. RELATED PARTY TRANSACTIONS (CONTINUED)

Balances	As at 30 June	As at 31 December
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(audited)
Amounts due from fellow subsidiaries (included in trade receivables)	302	109
Amounts due to fellow subsidiaries (included in other payables)	1,627	1,002
Amounts due to fellow subsidiaries (included in dividends payable)	38,686	–
Contract liabilities with fellow subsidiaries	12,686	5,194

The above transactions with related parties also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were conducted in accordance with the terms of relevant agreements.

In addition, during six months ended 30 June 2021 and 2020, 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:

	Six months ended	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term benefits	1,559	1,060