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Kunming Dianchi Water Treatment Co., Ltd.
昆明滇池水务股份有限公司

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

(Stock Code: 3768)

2017 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended June 30, 2017, the Group's:

- revenue amounted to approximately RMB479.4 million, representing an increase of 12.9% from the corresponding period of last year;
- profit before income tax amounted to approximately RMB158.3 million, representing an increase of 4.1% from the corresponding period of last year;
- net profit attributable to shareholders of the Company amounted to approximately RMB132.3 million, representing an increase of 2.4% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.15, representing a decrease of 16.7% from the corresponding period of last year.

The board of Directors (the “**Board**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**We**”) for the six months ended June 30, 2017 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2016, as following:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | <i>Note</i> | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|---|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | 8 | 435,377 | 433,484 |
| Long-term prepayments | 8 | 450,000 | 450,000 |
| Property, plant and equipment | 8 | 2,337,662 | 2,369,089 |
| Receivables under service concession arrangements | 9 | 463,346 | 341,944 |
| Amounts due from customers for construction contracts | 13 | 78,296 | 35,573 |
| Intangible assets | 10 | 83,504 | 75,197 |
| Investments in associates | 11 | 15,580 | 15,101 |
| Prepayments for acquisition of subsidiaries | 7 | – | 79,950 |
| Deferred income tax assets | 12 | 24,845 | 23,697 |
| | | <u>3,888,610</u> | <u>3,824,035</u> |
| Current assets | | | |
| Receivables under service concession arrangements | 9 | 13,193 | 9,679 |
| Inventories | | 9,808 | 10,336 |
| Amounts due from customers for construction contracts | 13 | 12,247 | 5,716 |
| Trade and other receivables | 14 | 604,597 | 306,895 |
| Cash and cash equivalents | 15 | 1,396,343 | 446,830 |
| | | <u>2,036,188</u> | <u>779,456</u> |
| Total assets | | <u><u>5,924,798</u></u> | <u><u>4,603,491</u></u> |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

| | <i>Note</i> | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|--|-------------|--|---|
| EQUITY | | | |
| Capital and reserve attributable to equity holders of the Company | | | |
| Share capital | 16 | 1,029,111 | 720,000 |
| Other reserves | 17 | 1,384,346 | 696,513 |
| Retained earnings | | <u>1,107,221</u> | <u>1,077,795</u> |
| | | 3,520,678 | 2,494,308 |
| Non-controlling interests | | <u>5,544</u> | <u>5,102</u> |
| Total equity | | <u>3,526,222</u> | <u>2,499,410</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred revenue | 19 | 113,379 | 107,121 |
| Borrowings | 18 | 727,445 | 741,995 |
| Deferred income tax liabilities | 12 | <u>13,839</u> | <u>9,321</u> |
| | | <u>854,663</u> | <u>858,437</u> |
| Current liabilities | | | |
| Trade and other payables | 20 | 493,993 | 422,339 |
| Current income tax liabilities | | 29,986 | 44,568 |
| Borrowings | 18 | <u>1,019,934</u> | <u>778,737</u> |
| | | <u>1,543,913</u> | <u>1,245,644</u> |
| Total liabilities | | <u>2,398,576</u> | <u>2,104,081</u> |
| Total equity and liabilities | | <u>5,924,798</u> | <u>4,603,491</u> |
| Net current assets/(liabilities) | | <u>492,275</u> | <u>(466,188)</u> |
| Total assets less current liabilities | | <u>4,380,885</u> | <u>3,357,847</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Unaudited | |
|-------------------------------------|----|----------------------------------|------------------|
| | | Six months ended June 30, | |
| <i>Note</i> | | 2017 | 2016 |
| | | RMB'000 | RMB'000 |
| Revenue | 6 | 479,359 | 424,701 |
| Cost of sales | 23 | <u>(269,282)</u> | <u>(223,231)</u> |
| Gross profit | | 210,077 | 201,470 |
| Selling expenses | 23 | (6,265) | (5,098) |
| Administrative expenses | 23 | (52,783) | (40,576) |
| Research and development expenses | 23 | (4,322) | (3,056) |
| Other income | 21 | 44,493 | 39,100 |
| Other (losses)/gains – net | 22 | <u>(8)</u> | <u>2,554</u> |
| Operating profit | | <u>191,192</u> | <u>194,394</u> |
| Finance income | 24 | 18,542 | 901 |
| Finance expenses | 24 | <u>(51,935)</u> | <u>(43,109)</u> |
| Finance expenses – net | 24 | <u>(33,393)</u> | <u>(42,208)</u> |
| Share of results of associates | | <u>479</u> | <u>(178)</u> |
| Profit before income tax | | 158,278 | 152,008 |
| Income tax expense | 25 | <u>(25,499)</u> | <u>(22,595)</u> |
| Profit for the period | | <u>132,779</u> | <u>129,413</u> |
| Profit attributable to: | | | |
| – The equity holders of the Company | | 132,337 | 129,263 |
| – Non-controlling interests | | <u>442</u> | <u>150</u> |
| | | <u>132,779</u> | <u>129,413</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

| | | Unaudited | |
|---|-------------|----------------------------------|-----------------------|
| | | Six months ended June 30, | |
| | <i>Note</i> | 2017 | 2016 |
| | | RMB'000 | RMB'000 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Currency translation differences | | <u>(516)</u> | – |
| Other comprehensive income for the period, net of tax | | <u>(516)</u> | – |
| Total comprehensive income for period | | <u><u>132,263</u></u> | <u><u>129,413</u></u> |
| Attributable to: | | | |
| – The equity holders of the Company | | <u>131,821</u> | 129,263 |
| – Non-controlling interests | | <u>442</u> | <u>150</u> |
| | | <u><u>132,263</u></u> | <u><u>129,413</u></u> |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share) | | | |
| – Basic and diluted earnings per share | 26 | <u><u>0.15</u></u> | <u><u>0.18</u></u> |
| Dividends | 27 | <u><u>102,911</u></u> | – |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Unaudited | | | | | | |
|--|----------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------|
| Capital and reserves attributable to equity holders of the Company | | | | | | |
| | Share | Other | Retained | Total | Non- | Total |
| <i>Note</i> | capital | reserves | earnings | Total | controlling | equity |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| As at January 1, 2017 | 720,000 | 696,513 | 1,077,795 | 2,494,308 | 5,102 | 2,499,410 |
| Comprehensive income: | | | | | | |
| Profit for the period | – | – | 132,337 | 132,337 | 442 | 132,779 |
| Currency translation difference | – | (516) | – | (516) | – | (516) |
| | <u>–</u> | <u>(516)</u> | <u>–</u> | <u>(516)</u> | <u>–</u> | <u>(516)</u> |
| Transactions with owners: | | | | | | |
| Proceeds from issuance of H shares | <i>16</i> | 309,111 | 688,349 | – | 997,460 | – |
| Dividend declared | <i>27</i> | – | – | (102,911) | (102,911) | – |
| | | <u>–</u> | <u>–</u> | <u>(102,911)</u> | <u>(102,911)</u> | <u>–</u> |
| As at June 30, 2017 | | <u>1,029,111</u> | <u>1,384,346</u> | <u>1,107,221</u> | <u>3,520,678</u> | <u>5,544</u> |
| As at January 1, 2016 | | 720,000 | 669,061 | 830,254 | 2,219,315 | – |
| Comprehensive income: | | | | | | |
| Profit for the period | | – | – | 129,263 | 129,263 | 150 |
| | | <u>–</u> | <u>–</u> | <u>129,263</u> | <u>129,263</u> | <u>150</u> |
| Transactions with owners: | | | | | | |
| Non-controlling interests arising on business combination | | – | – | – | – | 4,417 |
| | | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>4,417</u> |
| As at June 30, 2016 | | <u>720,000</u> | <u>669,061</u> | <u>959,517</u> | <u>2,348,578</u> | <u>4,567</u> |

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | <i>Note</i> | Unaudited | |
|--|-------------|----------------------------------|------------------|
| | | Six months ended June 30, | |
| | | 2017 | 2016 |
| | | RMB'000 | RMB'000 |
| Cash flow from operating activities | | | |
| Cash used in operations | 28 | (185,799) | (13,448) |
| Interest paid | | (12,974) | (18,026) |
| Income tax paid | | (38,750) | (16,523) |
| | | <u>(237,523)</u> | <u>(47,997)</u> |
| Net cash used in operating activities | | | |
| Cash flow from investing activities | | | |
| Acquisition of subsidiaries, net of cash acquired | 7(iv) | (15,817) | (19,720) |
| Purchase of property, plant and equipment | | (41,998) | (57,275) |
| Purchase of intangible assets | | (2,436) | (475) |
| Proceeds from disposal of property, plant and equipment | | – | 96 |
| Funds granted to related parties | 30(b)(ii) | (31,366) | (28,562) |
| Funds repayments received from related parties | 30(b)(iii) | 31,366 | 27,802 |
| Interest received | | 3,849 | 901 |
| Government grants received relating to purchase of property, plant and equipment | | 14,620 | 400 |
| | | <u>(41,782)</u> | <u>(76,833)</u> |
| Net cash used in investing activities | | | |
| Cash flows from financing activities | | | |
| Payments for listing expenses | | (46,718) | – |
| Gross proceeds from issuances of H shares | 16 | 1,072,291 | – |
| Proceeds from borrowings | | 450,000 | 150,000 |
| Repayments of borrowings | | (228,328) | (398,377) |
| | | <u>1,247,245</u> | <u>(248,377)</u> |
| Net cash generated from/(used in) financing activities | | | |
| Net increase/(decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of the period | | 446,830 | 1,087,533 |
| Exchange losses | | (18,427) | – |
| | | <u>1,396,343</u> | <u>714,326</u> |
| Cash and cash equivalents at end of the period | | | |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

1. GENERAL INFORMATION

Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) was incorporated in Yunnan Province of the PRC on December 23, 2010 as a joint stock company with limited liabilities under the Company Law of the PRC. The registered office of the Company is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**HKEX**” or “**Hong Kong Stock Exchange**”) on April 6, 2017.

The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated.

This condensed consolidated interim financial information were approved for issue by the Board of Directors on August 18, 2017.

This condensed consolidated interim financial information has not been audited.

Significant events and transactions

The operational highlights of the period were the listing of the Company’s H shares on the Main Board of HKEX and acquisition of companies engaged in wastewater treatment business. Further details are given in Note 16 and Note 7 respectively.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2017 has been prepared in accordance with IAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016 as described in those annual financial statements, except for the adoption of amendments to IFRSs effective for the financial year ended December 31, 2017.

- (a) Amendments to IFRSs effective for the financial year ended December 31, 2017 do not have a material impact on the Group.
- (b) Impact of standards issued but not yet applied by the Group.

Up to the date of this report, the International Accounting Standards Board (“IASB”) has issued the following new standards, amendments to standards and interpretations which are relevant to the Group’s operations but are not yet effective for the annual accounting periods beginning after January 1, 2017 and which have not been early adopted by the Group:

| | | Effective for the annual periods beginning on or after |
|---|--|---|
| IFRS 9 “Financial Instruments” | IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. | January 1, 2018 |
| IFRS 15 “Revenue from Contracts with Customers” | IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. | January 1, 2018 |
| IFRS16 “Leases” | IFRS 16, ‘Leases’ addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases’, and related interpretations. | January 1, 2019 |

The Group does not plan to early adopt any of these standards. For these new standards not yet effective, the Group has assessed the impact and does not expect any significant impact on the Group’s operating results or financial position.

4 ESTIMATES

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended December 31, 2016.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended December 31, 2016 of the Group.

There have been no changes in the risk management policies since year end.

5.2 Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("HKD"). Foreign exchange risk arises cash and cash equivalents denominated in HKD. The Group does not hedge against any fluctuation in foreign currency.

At June 30, 2017, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, profit for the six months then ended would have been approximately RMB2,958,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash raised through the listing of the Company's H shares.

5.3 Credit risk

All the cash and cash equivalents and term deposits with initial term over three months, are deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, the customers are primarily local governments and PRC state-owned entities. As at June 30, 2017, the ageing analysis of trade receivables is set out in Note 14(b). Although the revenue is highly concentrated in the two single customers (Note 6(d)), in the opinion of the directors of the Company, the collectability of receivables were not considered as high risk because the receivables were due from a local government and there is no material long-aged receivables as at June 30, 2017. Accordingly, the time value of the long-aged receivables is not significant. As such, no provision was made for receivables during the six months ended June 30, 2017.

5.4 Liquidity risk

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total RMB'000 |
|--|--------------------------------|-------------------------------------|-------------------------------------|------------------|
| As at June 30, 2017 (Unaudited) | | | | |
| Borrowings | 1,019,934 | 33,376 | 700,000 | 1,753,310 |
| Interest payments on borrowings | 48,447 | 31,519 | 91,350 | 171,316 |
| Financial liabilities included in trade and other payables | 367,076 | – | – | 367,076 |
| | <u>1,435,457</u> | <u>64,895</u> | <u>791,350</u> | <u>2,291,702</u> |

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.4 Liquidity risk (continued)

| | Less than 1 year <i>RMB'000</i> | Between 1 and 2 years <i>RMB'000</i> | Between 2 And 5 years <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|---------------------------------------|--|--|-------------------------|
| As at December 31, 2016 (Audited) | | | | |
| Borrowings | 786,656 | 48,323 | 700,000 | 1,534,979 |
| Interest payments on borrowings | 48,331 | 30,450 | 91,350 | 170,131 |
| Financial liabilities included in trade and other payables | <u>283,867</u> | <u>–</u> | <u>–</u> | <u>283,867</u> |
| | <u><u>1,118,854</u></u> | <u><u>78,773</u></u> | <u><u>791,350</u></u> | <u><u>1,988,977</u></u> |

5.5 Fair value estimation

(a) The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group did not have any financial assets or liabilities that are measured at fair value during the six months ended June 30, 2017 and 2016.

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate to their net carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- Term deposits with an initial term over three months;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and
- Borrowings.

The fair value of non-current receivable under service concession arrangements, on-current amounts due from customers for construction contracts and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group and the Company for similar financial instruments.

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as executive directors of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred income tax assets and investments in associates. Unallocated liabilities consist of deferred income tax liabilities and current income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, property, plant and equipment and intangible assets.

(a) Revenue

The revenue of the Group for the periods ended June 30, 2017 and 2016 are set out as follows:

| | Six months ended June 30, | |
|---|----------------------------------|--------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Wastewater treatment | 383,203 | 371,964 |
| Operating services -under TOO model | 337,047 | 333,391 |
| Operating services – under TOT/BOT model | 17,360 | 11,370 |
| Construction services-under BT model | – | 3,761 |
| Construction services-under BOT model | 19,180 | 16,727 |
| Finance income | 9,616 | 6,715 |
| Reclaimed water supply and running water supply | 49,455 | 19,101 |
| Reclaimed water supply services -under TOO model | 5,617 | 4,204 |
| Running water supply services – under TOT/BOT model | 3,629 | 2,735 |
| Construction services-under BT model | 3,062 | – |
| Construction services-under BOT model | 36,216 | 11,201 |
| Finance income | 931 | 961 |
| Others | 46,701 | 33,636 |
| Management services | 38,457 | 29,064 |
| Transportation services | 1,566 | 1,174 |
| Others | 6,678 | 3,398 |
| | 479,359 | 424,701 |

6 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended June 30, 2017 is as follows:

| For the six months ended June 30, 2017 (Unaudited) | | | | |
|--|------------------------------------|-------------------------|-------------------|------------------|
| Business segment | Wastewater treatment RMB'000 | Water supply RMB'000 | Others RMB'000 | Total RMB'000 |
| Revenue from external customers | 383,203 | 49,455 | 46,701 | 479,359 |
| Segment gross profit | 184,830 | 2,448 | 22,799 | 210,077 |
| Segment profit | 169,668 | (276) | 21,800 | 191,192 |
| Finance income | | | | 18,542 |
| Finance expenses | | | | (51,935) |
| Share of results of associates | | | | 479 |
| Profit before income tax | | | | <u>158,278</u> |
| Other information | | | | |
| Depreciation of property, plant and equipment | 77,439 | 4,434 | 538 | 82,411 |
| Amortisation of land use rights | 4,914 | – | – | 4,914 |
| Amortisation of intangible assets | 2,286 | – | – | 2,286 |
| Capital expenditure | <u>41,084</u> | <u>704</u> | <u>1,278</u> | <u>43,066</u> |
| As of June 30, 2017 (Unaudited) | | | | |
| Business segment | Wastewater treatment RMB'000 | Water supply RMB'000 | Others RMB'000 | Total RMB'000 |
| Segment assets | 5,499,983 | 366,381 | 18,009 | 5,884,373 |
| Unallocated: | | | | |
| Deferred income tax assets | | | | 24,845 |
| Investments in associates | | | | 15,580 |
| Total assets | | | | <u>5,924,798</u> |
| Segment liabilities | 2,340,311 | 12,223 | 2,217 | 2,354,751 |
| Unallocated: | | | | |
| Deferred income tax liabilities | | | | 13,839 |
| Current income tax liabilities | | | | 29,986 |
| Total liabilities | | | | <u>2,398,576</u> |

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended June 30, 2016 is as follows:

| For the six months ended June 30, 2016 (Unaudited) | | | | |
|---|---|--------------------------------|--------------------------|-------------------------|
| Business segment | Wastewater treatment <i>RMB'000</i> | Water supply <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
| Revenue from external customers | 371,964 | 19,101 | 33,636 | 424,701 |
| Segment gross profit | 189,026 | 2,775 | 9,669 | 201,470 |
| Segment profit | 184,129 | 1,001 | 9,264 | 194,394 |
| Finance income | | | | 901 |
| Finance expenses | | | | (43,109) |
| Share of results of associates | | | | (178) |
| Profit before income tax | | | | <u>152,008</u> |
| Other information | | | | |
| Depreciation of property, plant and equipment | 76,388 | 2,178 | 243 | 78,809 |
| Amortisation of land use rights | 4,266 | – | – | 4,266 |
| Amortisation of intangible assets | 1,801 | – | – | 1,801 |
| Capital expenditure | <u>566,385</u> | <u>1,686</u> | <u>34</u> | <u>568,105</u> |
| As of December 31, 2016 (Audited) | | | | |
| Business segment | Wastewater treatment <i>RMB'000</i> | Water supply <i>RMB'000</i> | Others <i>RMB'000</i> | Total <i>RMB'000</i> |
| Segment assets | <u>4,220,160</u> | <u>331,504</u> | <u>13,029</u> | <u>4,564,693</u> |
| Unallocated: | | | | |
| Deferred income tax assets | | | | 23,697 |
| Investments in associates | | | | <u>15,101</u> |
| Total assets | | | | <u>4,603,491</u> |
| Segment liabilities | <u>2,036,766</u> | <u>9,494</u> | <u>3,932</u> | <u>2,050,192</u> |
| Unallocated: | | | | |
| Deferred income tax liabilities | | | | 9,321 |
| Current income tax liabilities | | | | <u>44,568</u> |
| Total liabilities | | | | <u>2,104,081</u> |

(c) Geographical information

The Group has derived almost all of its business in the PRC, hence, geographical segment information is not considered necessary.

6 SEGMENT INFORMATION (continued)

(d) Information about major customers

The major customer groups from whom the individual customer's revenue amounted to 10% or more of the Group's total revenue were as below:

| | Six months ended June 30, | |
|------------|---------------------------|-----------------------|
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Customer A | 234,875 | 229,451 |
| Customer B | <u>95,261</u> | <u>98,977</u> |
| | <u><u>330,136</u></u> | <u><u>328,428</u></u> |

The customer portfolio of the Group is concentrated, which is consistent with the industry practice. If customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

7 BUSINESS COMBINATIONS

- (i) On January 1, 2017, the Group acquired 100% of the equity interests in Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "Qutang Water") at a consideration of RMB5,300,000. After the acquisition, Qutang Water became a directly owned subsidiary of the Group.

Qutang Water's principal activity is wastewater treatment, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

| | As at January 1, 2017 <i>RMB'000</i> |
|---|--|
| Consideration: | |
| Cash consideration | <u>5,300</u> |
| Amounts of identifiable assets acquired and liabilities assumed: | |
| Cash and cash equivalents | 766 |
| Land use rights | 1,673 |
| Intangible assets | 3,812 |
| Property, plant and equipment | 5,252 |
| Trade and other receivables | 539 |
| Trade and other payables | (5,789) |
| Deferred tax liabilities | <u>(953)</u> |
| Total identifiable net assets | <u><u>5,300</u></u> |

An intangible asset of concession rights of RMB3,812,000 was recognised as at the acquisition date.

Of the revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017, Qutang Water accounted for approximately RMB750,000, with a profit of approximately RMB182,000.

7 **BUSINESS COMBINATIONS** (continued)

- (ii) On January 1, 2017, the Group acquired 100% of the equity interests in Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, “**Libao Water**”) at a consideration of RMB6,750,000. After the acquisition, Libao Water became a directly owned subsidiary of the Group.

Libao Water’s principal activity is wastewater treatment, and it was acquired as part of the Group’s expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

| | As at January 1, 2017 <i>RMB’000</i> |
|---|--|
| Consideration: | |
| Cash consideration | 6,750 |
| Amounts of identifiable assets acquired and liabilities assumed: | |
| Cash and cash equivalents | 841 |
| Land use rights | 1,579 |
| Intangible assets | 4,345 |
| Property, plant and equipment | 4,939 |
| Trade and other receivables | 623 |
| Trade and other payables | (4,491) |
| Deferred tax liabilities | (1,086) |
| Total identifiable net assets | 6,750 |

An intangible asset of concession rights of RMB4,345,000 was recognised as at the acquisition date.

The revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017 contributed by Libao Water was approximately RMB743,000. Libao Water also contributed profit of approximately RMB122,000 over the same period.

- (iii) On January 1, 2017, the Group acquired 100% of the equity interests in Hongze Tianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, “**Hongze Water**”) at a consideration of RMB67,900,000. After the acquisition, Hongze Water became a directly owned subsidiary of the Group.

Hongze Water’s principal activity is water treatment, and it was acquired as part of the Group’s expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

| | As at January 1, 2017 <i>RMB’000</i> |
|---|--|
| Consideration: | |
| Cash consideration | 67,900 |
| Amounts of identifiable assets acquired and liabilities assumed: | |
| Cash and cash equivalents | 1,023 |
| Receivables under service concession arrangements | 67,722 |
| Amount due from customers for construction contracts (<i>Note 13</i>) | 53,428 |
| Land use rights | 3,555 |
| Property, plant and equipment | 163 |
| Trade and other receivables | 5,171 |
| Inventories | 11 |
| Trade and other payables | (63,173) |
| Total identifiable net assets | 67,900 |

The revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017 contributed by Hongze Water was approximately RMB4,413,000. Hongze Water also contributed profit of approximately RMB4,898,000 over the same period.

7 **BUSINESS COMBINATIONS** (continued)

- (iv) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the six months ended June 30, 2017:

| | As at June 30, 2017 RMB'000 |
|---|--|
| Total cash consideration | 79,950 |
| Less: cash and cash equivalents in the subsidiaries acquired | (2,630) |
| change in consideration payable in respect of acquisition of business | 18,447 |
| change in prepayments for acquisition of subsidiaries | (79,950) |
| Cash outflows from the acquisitions | 15,817 |

8 **LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT AND LONG TERM PREPAYMENTS**

| | Land use rights RMB'000 | Property, plant and equipment RMB'000 | Long-term prepayments RMB'000 |
|---|------------------------------------|--|--|
| (Unaudited) | | | |
| Six months ended June 30, 2017 | | | |
| Opening amount as at January 1, 2017 | 433,484 | 2,369,089 | 450,000 |
| Additions | – | 40,630 | – |
| Acquisition of subsidiaries (Note 7) | 6,807 | 10,354 | – |
| Amortisation and depreciation (Note 23) | (4,914) | (82,411) | – |
| Closing net book amount as at June 30, 2017 | <u>435,377</u> | <u>2,337,662</u> | <u>450,000</u> |
| (Unaudited) | | | |
| Six months ended June 30, 2016 | | | |
| Opening net book amount as at January 1, 2016 | 347,560 | 1,961,017 | 863,950 |
| Additions | 98,984 | 54,696 | – |
| Transfer | – | 413,950 | (413,950) |
| Acquisition of subsidiaries | – | 8,824 | – |
| Disposals | (4,414) | (7) | – |
| Amortisation and depreciation (Note 23) | (4,266) | (78,809) | – |
| Closing net book amount as at June 30, 2016 | <u>437,864</u> | <u>2,359,671</u> | <u>450,000</u> |

- (a) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 18) as at the respective balance sheet dates were as follows:

| | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|--------------------------|--|--|
| Buildings and facilities | 286,502 | 298,705 |
| Machinery and equipment | 123,431 | 137,722 |
| | <u>409,933</u> | <u>436,427</u> |

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The following is the summarised information of receivables under service concession arrangement with respect to the Group's service concession arrangements.

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|--|--|--|
| Receivables under service concession arrangements | | |
| Current portion: | 13,193 | 9,679 |
| Non-current portion: | <u>463,346</u> | <u>341,944</u> |
| | <u><u>476,539</u></u> | <u><u>351,623</u></u> |

The effective interest rate fell within the range from 6.06% to 9.23%.

The directors of the Company are of the view that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and all the balances are still considered fully recoverable. The directors of the Company are also of the view that none of the receivables under service concession arrangements is past due and impaired as at June 30, 2017 and December 31, 2016.

10 INTANGIBLE ASSETS

| | Operating concession <i>RMB'000</i> | Other intangible assets <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|--|--------------------------------|
| (Unaudited) | | | |
| Six months ended June 30, 2017 | | | |
| Opening net book amount as at January 1, 2017 | 49,901 | 25,296 | 75,197 |
| Additions | – | 2,436 | 2,436 |
| Acquisition of subsidiaries (<i>Note 7</i>) | 8,157 | – | 8,157 |
| Amortisation (<i>Note 23</i>) | <u>(693)</u> | <u>(1,593)</u> | <u>(2,286)</u> |
| Closing net book amount as at June 30, 2017 | <u><u>57,365</u></u> | <u><u>26,139</u></u> | <u><u>83,504</u></u> |
| (Unaudited) | | | |
| Six months ended June 30, 2016 | | | |
| Opening net book amount as at January 1, 2016 | 44,778 | 23,869 | 68,647 |
| Additions | – | 475 | 475 |
| Acquisition of subsidiaries | 6,189 | – | 6,189 |
| Amortisation (<i>Note 23</i>) | <u>(455)</u> | <u>(1,346)</u> | <u>(1,801)</u> |
| Closing net book amount as at June 30, 2016 | <u><u>50,512</u></u> | <u><u>22,998</u></u> | <u><u>73,510</u></u> |

11 INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

| | Unaudited | |
|--------------------------------|----------------------------------|----------------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| At the beginning of the period | 15,101 | 15,222 |
| Share of results of associates | <u>479</u> | <u>(178)</u> |
| At the end of the period | <u><u>15,580</u></u> | <u><u>15,044</u></u> |

The Group's investments in associates and certain of its key financial information attributable to the Group are as follows:

| | Assets | Liabilities | Revenues | Profits | Net assets |
|---|---------------------|---------------------|-------------------|-------------------|---------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Six months ended June 30, 2017 (unaudited) | <u><u>9,340</u></u> | <u><u>2,718</u></u> | <u><u>793</u></u> | <u><u>479</u></u> | <u><u>6,622</u></u> |

No individual associate investment above is considered as material to the Group.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

| | Unaudited | Audited |
|---|----------------------|----------------------|
| | June 30, 2017 | December 31, 2016 |
| | RMB'000 | RMB'000 |
| Deferred income tax assets: | | |
| – to be recovered within 12 months | 2,513 | 1,468 |
| – to be recovered after more than 12 months | <u>22,332</u> | <u>22,229</u> |
| | <u><u>24,845</u></u> | <u><u>23,697</u></u> |
| Deferred income tax liabilities: | | |
| – to be recovered within 12 months | 234 | 149 |
| – to be recovered after more than 12 months | <u>13,605</u> | <u>9,172</u> |
| | <u><u>13,839</u></u> | <u><u>9,321</u></u> |

Movement in deferred income tax assets and liabilities during the six months ended June 30, 2017 and 2016, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

| | Unaudited | |
|--|----------------------------------|----------------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Deferred income tax assets | | |
| At the beginning of the period | 24,404 | 25,700 |
| Recognised in the consolidated statements of comprehensive income (<i>Note 25</i>) | <u>(300)</u> | <u>(1,059)</u> |
| At the end of the period | <u><u>24,104</u></u> | <u><u>24,641</u></u> |

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax assets as at June 30, 2017 and 2016 were mainly related to government grant, tax losses carried forward as well as depreciation and amortisation differences arising from the revaluation results on certain wastewater treatment facilities and land use rights injected by Kunming Dianchi Investment Co., Ltd. (“KDI”) upon the incorporation of the Company.

| Deferred income tax liabilities | Unaudited | |
|--|----------------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| At the beginning of the period | 10,028 | 5,772 |
| Acquisition of subsidiaries (<i>Note 7</i>) | 2,039 | 434 |
| Recognised in the consolidated statements of comprehensive income (<i>Note 25</i>) | 1,031 | 1,675 |
| | <hr/> | <hr/> |
| At the end of the period | 13,098 | 7,881 |
| | <hr/> <hr/> | <hr/> <hr/> |

Deferred income tax liabilities were mainly related to fair value adjustment arising from acquisition of subsidiaries, differences arising from service concession receivables and differences arising from construction contracts as at June 30, 2017 and 2016.

13 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

| | Unaudited | Audited |
|--|----------------------|-------------------|
| | June 30, 2017 | December 31, 2016 |
| | RMB'000 | RMB'000 |
| Costs incurred to date plus recognised profits less recognised losses | | |
| Current portion: | 12,247 | 5,716 |
| Non-current portion: | 78,296 | 35,573 |
| | <hr/> | <hr/> |
| | 90,543 | 41,289 |
| | <hr/> <hr/> | <hr/> <hr/> |

Amounts due from customers for construction contracts of RMB53,428,000 was acquired from the acquisition of Hongze Water in January 2017 (Note 7(iii)).

14 TRADE AND OTHER RECEIVABLES

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|--|--|--|
| Trade receivables (Note (b)): | | |
| – Third parties | 3,128 | 941 |
| – Related parties (Note 30) | 84,865 | 39,678 |
| – Local government | <u>356,009</u> | <u>85,381</u> |
| Trade receivables – net | <u>444,002</u> | <u>126,000</u> |
| Other receivables: | | |
| – Third parties | 13,613 | 54,287 |
| – Related parties (Note 30) | 54,535 | 39,472 |
| – Local government | <u>81,393</u> | <u>51,590</u> |
| Other receivables – net | <u>149,541</u> | <u>145,349</u> |
| Prepayments: | | |
| – Listing expenses (Note (a)) | – | 28,946 |
| – Others | <u>11,054</u> | <u>6,600</u> |
| Prepayments – net | <u>11,054</u> | <u>35,546</u> |
| Trade and other receivables – net | <u>604,597</u> | <u>306,895</u> |

The fair value of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximate to their net carrying amounts.

The carrying amounts of trade and other receivables are denominated in RMB.

- (a) Upon successful listing on the Main Board of HKEX, the prepaid listing expenses were recorded as a deduction to the share premium (Note 16).
- (b) Ageing analysis of trade receivables at the respective balance sheet dates based on the invoice dates, are as follows:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|--------------------------------------|--|--|
| – Within one year | 442,182 | 125,542 |
| – Over one year and within two years | <u>1,820</u> | <u>458</u> |
| | <u>444,002</u> | <u>126,000</u> |

Based on the past experiences, the directors of the Company believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and their respective related parties and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

The Group does not hold any collateral as security over these debtors.

15 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents are denominated in the following currencies:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|-----|--|--|
| RMB | 1,035,917 | 446,830 |
| HKD | 348,017 | – |
| USD | 12,409 | – |
| | <u>1,396,343</u> | <u>446,830</u> |

(b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates at 0.35% during the six months ended June 30, 2017 and 2016.

16 SHARE CAPITAL

Ordinary shares, issued and fully paid:

| | Number of shares <i>(thousands)</i> | Share capital <i>RMB'000</i> |
|---|---|--|
| (Unaudited) | | |
| At January 1, 2017 | 720,000 | 720,000 |
| H shares issued (<i>Note (a)</i>) | <u>309,111</u> | <u>309,111</u> |
| At June 30, 2017 | <u>1,029,111</u> | <u>1,029,111</u> |
| At January 1, 2016 and June 30, 2016 | <u>720,000</u> | <u>720,000</u> |

(a) On April 6, 2017, the Company newly issued 308,572,000 H shares at HKD3.91 per share in connection with the initial listing of H shares of the Company on the Main Board of HKEX, and raised gross proceeds of approximately HKD1,206,517,000 (equivalent to RMB1,070,421,000). Subsequently on May 12, 2017, after the exercise of the over-allotment option, additional 539,000 H shares of RMB1.00 each were issued at HKD3.91 per share and raised gross proceeds of HKD2,107,000 (equivalent to RMB1,870,000). Net proceeds of RMB997,460,000 (after deducting the underwriting commissions and other listing expenses) was raised by the Company, of which RMB309,111,000 was credited to share capital with remaining RMB688,349,000 credited to share premium (Note 17).

17 OTHER RESERVES

| | Share premium (Note 16) RMB'000 | Statutory reserve RMB'000 | Capital reserve RMB'000 | Currency translation differences reserve RMB'000 | Total RMB'000 |
|---|--|---------------------------------|-------------------------------|--|------------------|
| At January 1, 2017 | 595,091 | 149,215 | (47,793) | – | 696,513 |
| Proceeds from H shares issued (Note 16) | 688,349 | – | – | – | 688,349 |
| Currency translation differences | – | – | – | (516) | (516) |
| At June 30, 2017 (unaudited) | <u>1,283,440</u> | <u>149,215</u> | <u>(47,793)</u> | <u>(516)</u> | <u>1,384,346</u> |
| At January 1, 2016 and June 30, 2016 (unaudited) | <u>595,091</u> | <u>121,763</u> | <u>(47,793)</u> | <u>–</u> | <u>669,061</u> |

18 BORROWINGS

| | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|--|---------------------------------------|---|
| Non-current: | | |
| Unsecured long-term borrowings | 30,000 | – |
| Secured long-term borrowings (Note (b)) | 3,416 | 48,356 |
| Corporate bonds (Note (c)) | 694,029 | 693,639 |
| Total non-current borrowings | <u>727,445</u> | <u>741,995</u> |
| Current: | | |
| Unsecured short-term borrowings | 920,000 | 660,000 |
| Secured short-term borrowings (Note (b)) | 99,934 | 118,737 |
| Total current borrowings | <u>1,019,934</u> | <u>778,737</u> |
| Total borrowings | <u>1,747,379</u> | <u>1,520,732</u> |

(a) All the borrowings were denominated in RMB.

(b) As at June 30, 2017 and December 31, 2016, analysis of the secured borrowings are as follows:

| | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|-------------------------------|---------------------------------------|---|
| Secured by: | | |
| Property, plant and equipment | <u>103,350</u> | <u>167,093</u> |

(c) As approved by the National Development and Reform Commission on November 25, 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on December 25, 2015. At the end of the fifth year, the Company can adjust the interest rate within the range from 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't accept the adjusted interest rate.

18 **BORROWINGS** (continued)

- (d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

| | 6 months or less <i>RMB'000</i> | Between 6 and 12 months <i>RMB'000</i> | Between 1 and 5 years <i>RMB'000</i> | Total <i>RMB'000</i> |
|-----------------------------------|---|--|--|--------------------------------|
| As at June 30, 2017 (Unaudited) | <u>703,350</u> | <u>320,000</u> | <u>724,029</u> | <u>1,747,379</u> |
| As at December 31, 2016 (Audited) | <u>317,093</u> | <u>510,000</u> | <u>693,639</u> | <u>1,520,732</u> |

- (e) The maturity of borrowings is as follows:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|----------------------------|--|--|
| On demand or within 1 year | 1,019,934 | 778,737 |
| Between 1 and 2 years | 33,416 | 48,356 |
| Later than 5 years | <u>694,029</u> | <u>693,639</u> |
| | <u>1,747,379</u> | <u>1,520,732</u> |

- (f) The weighted average effective interest rates at each balance sheet date are as follows:

| | Unaudited June 30, 2017 | Audited December 31, 2016 |
|------------|------------------------------------|------------------------------|
| Borrowings | <u>4.42%</u> | <u>4.78%</u> |

- (g) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

- (h) The Group had the following undrawn bank borrowing facilities:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|----------------|--|--|
| RMB facilities | <u>1,350,000</u> | <u>740,000</u> |

19 DEFERRED REVENUE

Deferred revenue of the Group included government grants in respect of the Group's or the Company's construction of various facilities and wastewater treatment facilities as well as the conduction of research and development activities.

Government grants relating to purchase of property, plant and equipment are recognised to the consolidated statements of comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs intended to compensate.

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|---------------------------------------|--|--|
| Government grants relating to: | | |
| – property plant and equipment | 105,430 | 95,835 |
| – research and development activities | 7,949 | 11,286 |
| | 113,379 | 107,121 |

The movements of government grants during the six months ended June 30, 2017 and 2016 are set out as follows:

| | Unaudited Six months ended June 30, 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
|---------------------------------|---|------------------------|
| Opening net book value | 107,121 | 110,623 |
| Additions | 14,620 | 4,333 |
| Amortisation (<i>Note 21</i>) | (8,362) | (3,495) |
| Closing net book value | 113,379 | 111,461 |

20 TRADE AND OTHER PAYABLES

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|--|--|--|
| Trade payables | 3,725 | 2,093 |
| Other payables due to: | 51,657 | 53,176 |
| – related parties (<i>Note 30</i>) | 18,117 | 20,881 |
| – third parties | 33,540 | 32,295 |
| Consideration payable for acquisition of subsidiaries (<i>Note 7</i>) | – | 18,447 |
| Staff salaries and welfare payables | 17,800 | 28,661 |
| Advance from customers | 8,513 | 12,177 |
| – related parties (<i>Note 30</i>) | 6,817 | 9,879 |
| – third parties | 1,696 | 2,298 |
| Payables on acquisition of property, plant and equipment due to: | 150,589 | 151,957 |
| – related parties (<i>Note 30</i>) | 29,769 | 29,769 |
| – third parties | 120,820 | 122,188 |
| Payables on acquisition of land use rights from related parties (<i>Note 30</i>) | 58,194 | 58,194 |
| Dividend payables (<i>Note 27</i>) | 102,911 | – |
| Interest payables | 17,318 | 1,310 |
| Accrued taxes other than income tax | 83,286 | 96,324 |
| | 493,993 | 422,339 |

20 TRADE AND OTHER PAYABLES (continued)

- (a) All trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.
- (b) The Group's trade and other payables are denominated in RMB.
- (c) Ageing of trade payables to third parties at the respective balance sheet dates are all within one year.

21 OTHER INCOME

| | Unaudited | |
|--|----------------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Government grants: | 39,863 | 34,048 |
| – relating to property plant, and equipment (<i>Note 19</i>) | 5,025 | 1,997 |
| – relating to research and development activities (<i>Note 19</i>) | 3,337 | 1,498 |
| – relating to tax refund (<i>Note (a)</i>) | 31,501 | 30,553 |
| Interest income from cash and cash equivalents | 3,449 | 2,514 |
| Others | 1,181 | 2,538 |
| | 44,493 | 39,100 |

- (a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of Value-added Tax (“VAT”) refund upon collection from July 1, 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

22 OTHER (LOSSES)/GAINS – NET

| | Unaudited | |
|--|----------------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Gains on disposal of property, plant and equipment – net | – | 89 |
| Gains on disposal of land use rights – net | – | 2,420 |
| Others | (8) | 45 |
| | (8) | 2,554 |

23 EXPENSES BY NATURE

| | Unaudited | |
|--|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Depreciation of property, plant and equipment (Note 8) | 82,411 | 78,809 |
| Cost of construction services | 58,458 | 31,689 |
| Employee benefit expenses | 48,394 | 43,443 |
| Utilities and electricity | 41,077 | 37,602 |
| Costs of wastewater and water supply services | 19,943 | 24,592 |
| – Material costs | 14,173 | 19,287 |
| – Costs for sludge and water hyacinth treatment | 5,770 | 5,305 |
| Taxes and levies | 15,495 | 11,398 |
| Listing expenses | 13,255 | 1,253 |
| Professional expenses | 11,093 | 5,484 |
| Labour costs | 9,227 | 7,855 |
| Repair and maintenance costs | 6,053 | 5,592 |
| Amortisation of land use rights (Note 8) | 4,914 | 4,266 |
| Commission charge (Note 30) | 3,699 | 3,952 |
| Transportation costs | 3,228 | 3,197 |
| Office expenditures | 3,049 | 2,833 |
| Material used in research and development activities | 2,640 | 1,872 |
| Amortisation of intangible assets (Note 10) | 2,286 | 1,801 |
| Auditor's remuneration | 1,928 | 155 |
| Miscellaneous | 5,502 | 6,168 |
| Total cost of sales, selling expenses, administrative expenses and research and development expenses | <u>332,652</u> | <u>271,961</u> |

24 FINANCE EXPENSES – NET

| | Unaudited | |
|--|---------------------------|-----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Finance income: | | |
| – Interest income charged to related parties (Note 30) | 14,693 | – |
| – Interest income arising from construction contracts | 3,849 | 848 |
| – Others | – | 53 |
| | <u>18,542</u> | <u>901</u> |
| Finance expenses: | | |
| – Interest expenses on borrowings | (39,194) | (49,551) |
| – Less: borrowing costs capitalised in property, plant and equipment | 5,237 | 6,486 |
| – Interest expenses – net | (33,957) | (43,065) |
| – Exchange loss | (17,911) | – |
| – Others | (67) | (44) |
| | <u>(51,935)</u> | <u>(43,109)</u> |
| Finance expenses – net | <u>(33,393)</u> | <u>(42,208)</u> |

25 INCOME TAX EXPENSE

The amounts of income tax expense charged to the consolidated statements of comprehensive income represent:

| | Unaudited | |
|-------------------------------|---------------------------|---------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Current income tax | 24,168 | 19,861 |
| Deferred income tax (Note 12) | 1,331 | 2,734 |
| Income tax expense | <u>25,499</u> | <u>22,595</u> |

Under the Law of the PRC on Corporate Income Tax (the “CIT Law”) and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008. The income tax rate of 25% is applicable to all of the Group’s PRC subsidiaries during the six months ended June 30, 2017 and 2016, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

- China’s west region development policy (the “West Region Development Policy”) is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the six months ended June 30, 2017 and 2016, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.
- In addition to the West Region Development Policy, the Company also qualifies as a “High-tech Enterprise” since 2014 and enjoys a 15% enterprise income tax rate.
- Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, and are entitled to three years’ exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.
- Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.
- The forecasted effective tax rate for the year ended December 31, 2017 is 16.11% and the effective tax rate for the year ended December 31, 2016 was 15.66%.

26 EARNINGS PER SHARE

- Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Unaudited | |
|--|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| Profit attributable to equity holders of the Company (RMB'000) | 132,337 | 129,263 |
| Weighted average number of ordinary shares in issue (thousand) | <u>865,061</u> | <u>720,000</u> |
| Basic earnings per share (RMB) | <u>0.15</u> | <u>0.18</u> |

- The diluted earnings per share are the same as the basic earnings per share as there was no dilutive potential share during the six months ended June 30, 2017 and 2016.

27 DIVIDENDS

As approved by the annual general meeting held on June 19, 2017, the Company determined to pay a cash dividend for the year ended December 31, 2016 of RMB0.1 (tax inclusive) for every ordinary share amounting to RMB102,911,000 out of retained earnings of the Company. The declaration of these dividends had not been reflected as dividends payable in the consolidated financial statements for the year ended December 31, 2016 but have been reflected as dividends distribution for the six months ended June 30, 2017. The 2016 dividends are expected to be paid to the shareholders by the August 31, 2017.

28 CASH USED IN OPERATING ACTIVITIES

Reconciliation of profit before income tax to net cash generated from operations

| | Unaudited | |
|--|---------------------------|-----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the period before income tax | 158,278 | 152,008 |
| Adjustments for: | | |
| – Depreciation of property, plant and equipment (<i>Note 23</i>) | 82,411 | 78,809 |
| – Amortisation of land use rights (<i>Note 23</i>) | 4,914 | 4,266 |
| – Amortisation of intangible assets (<i>Note 23</i>) | 2,286 | 1,801 |
| – Amortisation of government grants relating to purchase of property, plant and equipment (<i>Note 21</i>) | (5,025) | (1,997) |
| – Gains on disposal of property, plant and equipment (<i>Note 22</i>) | – | (89) |
| – Share of results of associates (<i>Note 11</i>) | (479) | 178 |
| – Finance expenses – net | 33,326 | 42,164 |
| | <u>275,711</u> | <u>277,140</u> |
| Changes in working capital: | | |
| – Increase in trade and other receivables | (229,958) | (105,874) |
| – Decrease/(increase) in inventories | 539 | (1,026) |
| – Decrease/(increase) in amount due from customers for construction contracts | 4,174 | (4,088) |
| – Increase in receivables under service concession arrangements | (57,194) | (30,191) |
| – (Decrease)/increase in deferred revenue relating to research and development activities | (3,337) | 2,435 |
| – Decrease in trade and other payables | (175,734) | (151,844) |
| Cash used in operations | <u>(185,799)</u> | <u>(13,448)</u> |

29 COMMITMENTS

(a) Capital commitments

(i) Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|---------------------------------------|--|--|
| Property, plant and equipment | 391,160 | 458,123 |
| Land use rights and intangible assets | 14,908 | 16,978 |
| | 406,068 | 475,101 |

(b) Operating lease commitments – the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Unaudited June 30, 2017 <i>RMB'000</i> | Audited December 31, 2016 <i>RMB'000</i> |
|--|--|--|
| No later than 1 year | 121 | 121 |
| Later than 1 year and no later than 2 year | 121 | 121 |
| Later than 2 year and no later than 5 year | 363 | 363 |
| Later than 5 years | 2,313 | 2,374 |
| | 2,918 | 2,979 |

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI which is a government-related enterprise established in the PRC by Kunming State-owned Assets Supervision and Administration Commission (“**Kunming SASAC**”). In accordance with IAS 24 (Revised), “Related Party Disclosures”, issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group’s significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the Financial Information.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended June 30, 2017 and 2016, and balances arising from related party transactions as at June 30, 2017 and December 31, 2016.

30 RELATED PARTY TRANSACTIONS (continued)

(a) Name and relationship with related parties

| Name of related party | Nature of relationship |
|--|--|
| KDI | Controlling shareholder of the Company |
| Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, “Xindu Investment”) | Controlled by Kunming SASAC |
| Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, “Kunming CGE”) | Controlled by Kunming SASAC |
| Kunming Qingyuan Water Supply Co., Ltd. (昆明清源自來水有限責任公司, “Kunming Qingyuan”) | Controlled by Kunming SASAC |
| Kunming Dianchi Lakes Regulation and Development Co., Ltd. (昆明滇池湖泊治理開發有限公司, “Dianchi Lakes”) | Controlled by KDI |

(b) Transactions with related parties

Save as disclosed elsewhere in this report, for the years ended June 30, 2017 and 2016, the Group had the following significant transactions with related parties.

(i) Purchase of property, plant and equipment, other than the Reorganisation:

| | Unaudited | |
|-----|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| KDI | - | 448,884 |
| | <u>-</u> | <u>448,884</u> |

(ii) Purchase of land use rights, other than the reorganisation:

| | Unaudited | |
|------------------|---------------------------|---------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| KDI | - | 67,984 |
| Xindu Investment | - | 31,000 |
| | <u>-</u> | <u>98,984</u> |

(iii) Loans granted to related parties:

| | Unaudited | |
|------------------|---------------------------|---------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| KDI | 31,366 | 27,802 |
| Xindu Investment | - | 760 |
| | <u>31,366</u> | <u>28,562</u> |

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

30 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(iv) Loans repaid from related parties:

| | Unaudited | |
|-----|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| KDI | <u>31,366</u> | <u>27,802</u> |

(v) Interest income from related parties:

| | Unaudited | |
|-----|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| KDI | <u>14,693</u> | <u>–</u> |

(vi) Transportation services provided to related parties:

| | Unaudited | |
|---------------|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Dianchi Lakes | <u>396</u> | <u>304</u> |

(vii) Services provided to related parties:

| | Unaudited | |
|-----|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| KDI | <u>41,547</u> | <u>27,881</u> |

(viii) Commission charged by related parties:

| | Unaudited | |
|------------------|---------------------------|----------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Kunming CGE | 3,344 | 3,474 |
| Kunming Qingyuan | <u>355</u> | <u>478</u> |
| | <u>3,699</u> | <u>3,952</u> |

30 RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

| | Unaudited | |
|--|---------------------------|------------|
| | Six months ended June 30, | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Salaries, wages and bonuses | 764 | 532 |
| Contributions to pension plans | 124 | 104 |
| Housing fund, medical insurance and other social insurance | 199 | 194 |
| | <u>1,087</u> | <u>830</u> |

(d) Balances with related parties

(i) Trade and other receivables due from related parties:

| | Unaudited | Audited |
|------------------|----------------|-------------------|
| | June 30, 2017 | December 31, 2016 |
| | RMB'000 | RMB'000 |
| KDI | 88,324 | 30,677 |
| Xindu Investment | 24,232 | 24,232 |
| Kunming CGE | 19,376 | 18,295 |
| Kunming Qingyuan | 7,468 | 5,946 |
| | <u>139,400</u> | <u>79,150</u> |

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(ii) Other payables due to related parties:

| | Unaudited | Audited |
|--|----------------|-------------------|
| | June 30, 2017 | December 31, 2016 |
| | RMB'000 | RMB'000 |
| <i>Acquisition of property, plant and equipment:</i> | | |
| KDI | 13,729 | 13,729 |
| Xindu Investment | 16,040 | 16,040 |
| <i>Acquisition of land use rights:</i> | | |
| KDI | 27,194 | 27,194 |
| Xindu Investment | 31,000 | 31,000 |
| <i>Others:</i> | | |
| KDI | 17,520 | 19,039 |
| Kunming CGE | 597 | 1,664 |
| Kunming Qingyuan | - | 178 |
| | <u>106,080</u> | <u>108,844</u> |

Other payables are all non-trade payables and will be settled upon demand of these related parties.

30 RELATED PARTY TRANSACTIONS (continued)

(d) Balances with related parties (continued)

(iii) Advance from related parties for services to be provided:

| | Unaudited June 30, 2017 RMB'000 | Audited December 31, 2016 RMB'000 |
|-----|---------------------------------------|---|
| KDI | <u>6,817</u> | <u>9,879</u> |

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

The industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from qualified raw water sources; treatment of municipal wastewater collected through municipal pipelines; and further treatment of wastewater for reuse. Our core business segments include municipal wastewater treatment, reclaimed water supply and running water supply.

In 2016, the "13th Five-Year Plan" of the PRC government called for the comprehensive improvement of eco-environmental quality as one of its main goals and overall philosophy. The PRC government has expanded the overall layout of the development strategy from the "four-in-one" of economic development, political development, cultural development and social development to the "five-in-one" with the inclusion of the development of ecological civilization for the first time. Centering around this new objective, overall planning and deployment have been carried out from different aspects including comprehensive environmental management, ecological security mechanism and green environmental protection industry development. On the one hand, the increasing support from the government in the form of favorable policies to environmental protection industry demonstrates that China is determined to continue tightening implementation of pollution treatment and control and enhancing improvement of the environment. On the other hand, it also further provides new opportunities and a broader platform for the long-term development of the environmental protection industry.

In December 2016, the PRC government introduced the "13th Five-Year" National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《「十三五」全國城鎮污水處理及再生水利用設施建設規劃》) which states that during the 13th Five-Year Plan period, further coordination of the planning, reasonable layout and greater contribution are the tasks to achieve, for purposes of changing the mode of the construction of urban wastewater treatment facilities from "scaled growth" to "quality and effect enhancement". Thus, the support capability and service level of the PRC urban wastewater treatment facilities will be enhanced and upgraded overall, enabling the public to actually feel the effect of the improvement made to the quality of the water environment.

During the Reporting Period, the environmental protection industry in China continued to develop favorably with positive outlook and had the following major changes: (1) the goal of improving environmental quality places greater emphasis on the effective implementation of environmental protection projects; while production capacity was used as the standard of assessment in the past, improvement in environmental treatment now comes first, whether in terms of the government's planning or the assessment system; (2) the investment in the environmental protection industry shifts from focusing on the quantity of the outputs to the quality of the outputs and from focusing on the supply and demand of the industry to the supply of the industry; and (3) the robust development of the environmental protection industry is continuously driving the growth of segment market, and new markets such as black and odorous water treatment, sponge city, soil remediation, carbon trading have shown enormous business potential. It is expected that the environmental protection industry will enter into a new phase of digital upgrade with the introduction of various methods such as big data and smart environmental protection to change the current situation of the environmental protection industry.

1. Overview of Wastewater Treatment Industry

The municipal wastewater treatment industry in China is under rapid development, due to increases in government investments, infrastructure, funding, efficiency and enhanced discharge standards. From 2015 to 2020, capacity of China's municipal wastewater treatment is expected to increase from 168.4 million m³ per day to 218.0 million m³ per day, at a CAGR of 5.3%. The treatment capacity may reach 66.3 billion m³ by 2020. The infrastructure in Yunnan Province is generally less developed than those in the coastal regions of China. The urbanization rates of Yunnan Province and Guizhou Province are lower than those of the provinces in eastern China. Rapid development of economy and urbanization drive the development of the municipal wastewater treatment industry in Yunnan Province and Guizhou Province.

The prospect of the macro-economy in Yunnan Province poses potential threat to the demand for wastewater treatment because the overall economy in Yunnan Province directly impacts on the level of business activities and thus further impacts on the volume of wastewater discharge. Changing government policies and their level of implementation are of equal importance to the prospects of the industry, as a supportive governmental policy is a key driver of the increase in wastewater treatment business in Yunnan Province.

2. Overview of Reclaimed Water Industry

Looking forward, capacity of reclaimed water is expected to grow at a CAGR of 10.4% between 2015 and 2020. By 2020, the total production capacity of reclaimed water in China is estimated to reach 41.6 million m³ per day. Due to the strong supports from the government of Yunnan Province to the development of the reclaimed water industry, the total production capacity of reclaimed water in Yunnan Province, PRC is expected to reach 272,000 m³ per day in 2020, representing a substantial increase.

3. Overview of Municipal Water Supply Industry

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at a rate of 1.3% in the five coming years reaching 368.0 million m³ per day by 2020. In Yunnan Province, PRC, the municipal running water supply capacity grows continuously. The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and Gross Domestic Product (GDP), which in turn will increase the demand for municipal running water supply. The government highly values the development of the supply of running water in western China.

Driven by the state policies, the water supply services industry is expected to see huge market opportunities and potential in the future. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the Chinese government policy supporting the environmental protection industry. The Board expects that the level of development, scale and growth of the industries will be further promoted and investors in capital markets will also gradually pay more attention to the environmental protection industry.

II. DEVELOPMENT STRATEGY AND PROSPECTS

The Group is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, PRC and a provider of integrated water-related services (including running water supply service) in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other areas of China. With the furtherance of the national and local governments, the Group is one of the major enterprises implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

The Group targets to become a leading integrated water and environmental protection services provider in the PRC. Thus, we intend to seize the development opportunities that will arise from the "One Belt One Road" scheme, with an aim of building a more ecological Yunnan and China, to strengthen our core business of wastewater treatment and reclaimed water supply, to expand our geographic coverage and to extend our services.

2017 is the first year that the H Shares of the Company are listed on the Hong Kong Stock Exchange. The successful listing of H Shares not only strengthened the shareholder base of the Group, but also further enhanced the Group's financing capability and increased its brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various business segments. With the support of relevant favorable environmental policies and growing market demands in the PRC and Southeast Asia, in addition to consolidating and expanding the achievements gained in its existing water business, the Group continued to expand its geographical coverage of services.

III. BUSINESS REVIEW

We principally adopt the TOO, TOT and BOT project models, with a focus on the TOO model. For the six months ended June 30, 2017, our TOO projects contributed to 71.5% of our total revenue. Our TOT projects contributed to 4.4% of our total revenue and our BOT projects contributed to 11.6% of our total revenue. We also adopt the BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT models, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtain new concessions from or transfer the relevant facilities back to the relevant local governments, depending on project types. As of June 30, 2017, we had a total of 34 plants (28 wastewater treatment plants and 6 running water plants) under concession agreements, of which 29 plants were in operation and 5 plants were under construction. Among such 29 plants in operation, 15 were TOO projects, 13 were TOT projects, and 1 was a BOT project.

During the Reporting Period, the utilization rate of our facilities is above the industry average and the volume of wastewater treated maintained at a high level. For the six months ended June 30, 2017, the total volume of wastewater treated was 253.5 million m³ with an average facility utilization rate of 87.9%.

Wastewater Treatment Projects

As of June 30, 2017, we had a total of 26 wastewater treatment plants in operation (including 13 in Kunming and 13 in other areas of China), with a total wastewater treatment capacity of 1.6 million m³ per day. We also had 2 wastewater treatment plants under construction in Yunnan Province, PRC and in Laos, respectively. Additionally, our management services facilities have a total designed wastewater treatment capacity of 0.5 million m³ per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while provide high quality wastewater treatment services. As of June 30, 2017, 90.8% of our designed wastewater treatment capacity reached the National Class I Category A standard.

Reclaimed Water Business

For our reclaimed water business, as of June 30, 2017, we had 6 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m³. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming.

Running Water Business

For our running water business, as of June 30, 2017, we had 3 running water plants in operation in Yunnan Province, PRC and 3 running water plants under construction (including 2 in Yunnan Province, PRC and 1 in Laos).

Our projects in Laos mark our first step expanding into the Southeast Asian market, as well as our commitment to China's national strategy of "One Belt One Road".

IV. FINANCIAL REVIEW

1. CONSOLIDATED RESULTS OF OPERATIONS

For the six months ended June 30, 2016, our revenue amounted to RMB424.7 million, and increased by 12.9% to RMB479.4 million for the six months ended June 30, 2017; our gross profits for the six months ended June 30, 2016 were RMB201.5 million, and increased by 4.3% to RMB210.1 million for the six months ended June 30, 2017. During the Reporting Period, the revenue from the service of wastewater treatment, reclaimed water, running water supply and management services respectively accounted for 79.9%, 10.3% and 8.0% of the total revenue.

The following table sets out our consolidated results of operations for the periods indicated:

| | For the six months ended June 30, | |
|--|--|-----------------------|
| | (Unaudited) | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Revenue | 479,359 | 424,701 |
| Cost of sales | <u>(269,282)</u> | <u>(223,231)</u> |
| Gross profit | 210,077 | 201,470 |
| Selling expenses | (6,265) | (5,098) |
| Administrative expenses | (52,783) | (40,576) |
| Research and development expenses | (4,322) | (3,056) |
| Other income | 44,493 | 39,100 |
| Other (losses)/gains – net | <u>(8)</u> | <u>2,554</u> |
| Operating profit | <u>191,192</u> | <u>194,394</u> |
| Finance income | 18,542 | 901 |
| Finance expenses | (51,935) | (43,109) |
| Finance expenses – net | <u>(33,393)</u> | <u>(42,208)</u> |
| Share of results of associates | <u>479</u> | <u>(178)</u> |
| Profit before income tax | 158,278 | 152,008 |
| Income tax expense | <u>(25,499)</u> | <u>(22,595)</u> |
| Other comprehensive income for the period | <u>(516)</u> | <u>–</u> |
| Total comprehensive income for the period | <u><u>132,263</u></u> | <u><u>129,413</u></u> |

(a) *Revenue*

During the Reporting Period, our revenue amounted to approximately RMB479.4 million, an increase of 12.9% as compared to approximately RMB424.7 million for the same period last year, primarily because:

- 1) our revenue from wastewater treatment business increased by RMB11.2 million, primarily due to ① an increase of approximately RMB3.7 million in our revenue from water plants operated by us due to the increase in volume of water treated; ② an increase of RMB4.9 million in our wastewater treatment. This is due to the increase in revenue under TOT model, in which the revenue from Guizhou Bafang Water Treatment Co., Ltd. (“**Bafang Water**”) increased by RMB2.6 million for the period after it is consolidated to the Group from May 2016 and the revenue from Hongze Water increased by RMB2.3 million after it is consolidated to the Group during the Reporting Period; ③ an increase of approximately RMB2.1 million in the interest income recognized by the TOT project of Hongze Water.

- 2) our revenue from running water business and reclaimed water business increased by RMB30.4 million, primarily due to ① the increase of running water BOT projects, including Malong No. 2 Running Water Plant (“**Malong Water**”), the construction projects for Shuangjiang No. 2 Running Water Plant and a running water plant in Laos, which resulted in an increase in our construction revenue from BOT projects by approximately RMB34.5 million. ② a decrease of RMB9.5 million in our construction revenue from BOT projects for the period as compared to the previous year as a result of the completion of the running water plant in Shidian.
- 3) our revenue from other businesses increased by RMB13.1 million, primarily due to ① the increase in our revenue from entrusted operation by RMB9.4 million, which was attributable to adjustment of water price calculation mechanism for entrusted operation, resulting in a substantial increase in revenue for the period. ② among other businesses, the revenue from construction of pipeline network by Yunnan Reclaimed Water Industry Co., Ltd. increased by approximately RMB1.6 million, and the revenue from material sales and technology services provided by Malong Water increased by approximately RMB0.7 million.

(b) *Cost of sales*

During the Reporting Period, our cost of sales amounted to approximately RMB269.3 million, an increase of 20.7% as compared to approximately RMB223.2 million for the same period last year, primarily because:

- 1) the cost of wastewater treatment increased by RMB15.4 million in line with the increase in revenue, including ① an increase of RMB10.0 million in the wastewater treatment cost of the Company, ② an increase of RMB7.7 million in the cost for the period due to BOT projects in Laos.
- 2) our water supply cost increased by approximately RMB30.7 million, primarily due to the increase in cost for the period by RMB18.6 million as a result of the construction of running water BOT projects in Shuangjiang and Laos. During the Reporting Period, the cost for construction of Malong Water increased by RMB15.9 million.
- 3) Hongze Water, Qutang Water and Libao Water were consolidated into the Group in 2017, which resulted in an increase in cost for the Reporting Period by approximately RMB2.6 million.

(c) *Gross margin*

During the Reporting Period, our gross margin was approximately 43.8%, a decrease of 3.6 percentage points as compared to 47.4% for the same period last year, primarily due to the increase in the costs for construction of BT and BOT projects for the Reporting Period.

(d) *Selling expenses*

During the Reporting Period, our selling expenses amounted to approximately RMB6.3 million, an increase of 23.5% as compared to approximately RMB5.1 million for the same period last year, primarily due to the increase in salaries expense for sales staff and the increase in selling expense of the Group is due to the inclusion of the selling expenses of Kunming He'ertai Environmental Industry & Trading Co., Ltd. (昆明和而泰環保工貿有限責任公司) into the Group's consolidated account after it became our subsidiary in the second half of 2016.

(e) *Administrative expenses*

During the Reporting Period, our administrative expenses amounted to approximately RMB52.8 million, an increase of 30.0% as compared to approximately RMB40.6 million for the same period last year, primarily because:

- 1) the listing related expenses for the year increased by RMB12.0 million as compared to previous year, primarily including listing related expenses provided based on the progress of listing.
- 2) the employee benefit expenses for the year increased by RMB1.5 million, primarily due to the increase in the salary and bonus of the staff.

(f) *Research and development expenses*

During the Reporting Period, our research and development expenses amounted to approximately RMB4.3 million, an increase of 38.7% as compared to approximately RMB3.1 million for the same period last year, primarily due to the larger investment in research and development by the Group.

(g) *Other income*

During the Reporting Period, our other income amounted to approximately RMB44.5 million, an increase of 13.8% as compared to approximately RMB39.1 million for the same period last year, primarily due to the increase in government grants by RMB5.8 million, among which, the government grants relating to assets increased by RMB3.0 million, the government grants relating to revenue increased by RMB1.8 million and refunded tax from the government increased by RMB0.9 million.

(h) *Other (losses)/gains – net*

During the Reporting Period, our other losses amounted to approximately RMB0 million, a decrease of 100% as compared to approximately RMB2.6 million gains for the same period last year, primarily due to the gain on disposal of land use rights obtained during the same period of last year.

(i) *Operating profit*

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to approximately RMB191.2 million, a decrease of 1.6% as compared to approximately RMB194.4 million for the same period last year. Our operating margin during the Reporting Period was 39.9%.

(j) *Finance income*

During the Reporting Period, our finance income amounted to approximately RMB18.5 million, an increase of 1,955.6% as compared to approximately RMB0.9 million for the same period last year, primarily due to the increase in provision for interest income on the long-term prepayment by approximately RMB14.0 million. At the same time, Hongze Water, acquired in 2017, obtained an interest income of RMB3.6 million from its right on a receivable on BT project.

(k) *Finance expenses*

During the Reporting Period, our finance expenses amounted to approximately RMB51.9 million, an increase of 20.4% as compared to approximately RMB43.1 million for the same period last year, primarily due to that the Company opened an account in Hong Kong dollar in 2017 and raised proceeds of HK\$1,279.1 million from the stock market in Hong Kong. As of June 30, 2017, cash and cash equivalents denominated in Hong Kong dollar amounted to RMB348 million were recorded. Due to the fluctuation of exchange rate between April to June, 2017, a temporary exchange loss of RMB17.9 million was recorded. The Company was of the view that portion of cash and cash equivalents denominated in Hong Kong dollar would be applied to potential acquisition in the future. The weighted average effective interest rate of our borrowings for the Reporting Period was 4.42%.

(l) *Profit before income tax*

During the Reporting Period, our profit before income tax amounted to approximately RMB158.3 million, an increase of 4.1% as compared to approximately RMB152.0 million for the same period last year, primarily due to the increase in gross profit by RMB8.6 million, the increase in finance income by RMB17.6 million, and the increase in listing expenses by RMB12.2 million.

(m) *Income tax*

During the Reporting Period, our net income tax expense amounted to approximately RMB25.5 million, an increase of 12.8% as compared to RMB22.6 million for the same period last year. The effective interest rate was 16.1%, increasing by 0.5 percentage point as compared with the same period last year, primarily because the income tax rate for the enterprises which were newly included into consolidation was 25%.

(n) *Total comprehensive income*

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to approximately RMB132.3 million, increased by 2.2% as compared to RMB129.4 million for the same period last year.

2. LIQUIDITY AND CAPITAL RESOURCES

Our cash is primarily used for investing in, constructing, operating and maintaining our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with bank loans, cash generated from operations, equity contributions and issuance of debt instruments.

The following table sets out our cash flows for the periods indicated:

| | For the six months ended June 30, | |
|--|--|----------------|
| | (Unaudited) | |
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Cashflow used in operating activities – net | (237,523) | (47,997) |
| Cashflow used in investing activities – net | (41,782) | (76,833) |
| Cashflow generated from/(used in) financing activities – net | 1,247,245 | (248,377) |
| Net increase/(decrease) in cash and cash equivalents | 967,940 | (373,207) |
| Foreign exchange losses | (18,427) | – |
| Cash and cash equivalents at beginning of the period | 446,830 | 1,087,533 |
| Cash and cash equivalents at end of the period | <u>1,396,343</u> | <u>714,326</u> |

(a) *Cashflow used in operating activities – net*

Our net cash generated from operating activities primarily consists of cash received from our clients for services provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

During the Reporting Period, our net cashflow used in operating activities was RMB237.5 million, increased by RMB189.5 million as compared to RMB48.0 million for the same period last year, which was primarily due to the increase in construction expenditure of BOT projects for the period. We received the revenue of entrusted operation from Kunming Dianchi Investment and refunded tax from government of approximately RMB79.5 million for the same period last year, while we did not receive such amounts in the Reporting Period, which are expected to be received in the second half of this year. The reasons for the relatively large difference between net cash outflow generated from operating activities in the first half of the year and that for the same period last year was due to, firstly, an increase in trade receivables for revenue from government procurement for wastewater treatment; secondly, an increase in refunded VAT receivables under the policy for refunding upon collection. Secondly, the relatively large balance of cash of the Company was primarily due to, firstly, the proceeds from listing of the Company; and secondly, as the Company accelerated the proposed investment projects after the blackout period of the listing, to satisfy the capital needs and to guarantee the funding of the Company's domestic projects and potential overseas projects, the Company made the corresponding capital reserves. We expected that, with the recovery of government grant for wastewater treatment fee, our cashflow from operating activities would be improved substantially.

(b) *Cashflow used in investing activities – net*

Our net cashflow used in investing activities has been primarily used to purchase property, plant and equipment and equity interests in subsidiaries and associates.

Our net cash used in investing activities reduced from RMB76.8 million for the six months ended June 30, 2016 to RMB41.8 million for the six months ended June 30, 2017, primarily because the purchase of property, plant and equipment reduced by RMB15.3 million and government grants received relating to purchase of property, plant and equipment increased by RMB14.2 million.

(c) *Cashflow generated from/(used in) financing activities – net*

Our net cashflow generated from financing activities primarily represents proceeds raised through listing and borrowings.

Our net cash generated from financing activities increased from RMB248.4 million used in the six months ended June 30, 2016 to RMB1,247.2 million generated in the six months ended June 30, 2017, primarily comprising issuance of new shares of RMB1,072.3 million and the proceeds from borrowings of RMB300.0 million.

3. WORKING CAPITAL

The table below presents our current assets and current liabilities as at the dates indicated:

| | As at June 30, 2017 RMB'000 | As at December 31, 2016 RMB'000 |
|--|--|--|
| Current assets | | |
| Receivables under service concession arrangements | 13,193 | 9,679 |
| Inventories | 9,808 | 10,336 |
| Amount due from customers for construction contracts | 12,247 | 5,716 |
| Trade and other receivables | 604,597 | 306,895 |
| Cash and cash equivalents | 1,396,343 | 446,830 |
| Total current assets | <u>2,036,188</u> | <u>779,456</u> |
| Current liabilities | | |
| Trade and other payables | (493,993) | (422,339) |
| Current income tax liabilities | (29,986) | (44,568) |
| Borrowings | (1,019,934) | (778,737) |
| Total current liabilities | <u>(1,543,913)</u> | <u>(1,245,644)</u> |
| Net current assets/(liabilities) | <u>492,275</u> | <u>(466,188)</u> |

Our net current assets/(liabilities) increased from net current liabilities of RMB466.2 million as of December 31, 2016 to net current assets of RMB492.3 million as of June 30, 2017, primarily due to the increase in cash by RMB949.5 million as the proceeds raised through our H Shares listing.

(a) *Receivables under service concession arrangements*

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation services and finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT and TOT agreements, the amount of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB13.2 million as at June 30, 2017, representing a year-on-year increase of 36.3%.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB463.3 million as at June 30, 2017, representing a year-on-year increase of 35.5%.

The aggregate of current and non-current portions for the Reporting Period increased by RMB124.9 million as compared to the end of 2016, primarily due to the increased receivables during the Reporting Period from newly established the Shuangjiang No. 2 Running Water Plant, a wastewater treatment plant and a running water plant in Laos and acquisition of Hongze Water.

(b) *Inventories*

Our total inventory balance decreased slightly from RMB10.3 million as of December 31, 2016 to RMB9.8 million as of June 30, 2017. The amount remained substantially the same.

For the six months ended June 30, 2017, our inventory turnover days were 6.7 days, increased slightly by 0.4 day as compared to the year ended December 31, 2016. The calculation for inventory turnover days was based on the average balance of inventory dividing by the current total cost and then multiplied by 180 days. The inventory turnover days remained substantially the same.

(c) *Amounts due from customers for construction contracts*

As of June 30, 2017, our amounts due from customers for construction contracts were RMB90.5 million, increased by RMB49.2 million as compared to RMB41.3 million for the six months ended December 31, 2016, primarily due to the collection right of RMB54.7 million from the tail water project of the new BT contract of Hongze Water.

(d) *Trade and other receivables*

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties and related parties; and (iii) prepayments. Our trade receivables are amounts due from customers for services provided in the ordinary course of business, including services performed for TOO and TOT projects and performed during the operation period of BOT projects. Our other receivables primarily consist of loans granted to and interest receivable from related parties, and VAT refund yet to be received. Our prepayments primarily consist of prepaid tariff and listing expenses related to the Global Offering.

The following table shows the breakdown of our consolidated trade and other receivables as of the dates indicated:

| | As at June 30, 2017 RMB'000 | As at December 31, 2016 RMB'000 |
|--|-----------------------------------|---------------------------------------|
| Trade receivables: | | |
| – Third parties | 3,128 | 941 |
| – Related parties | 84,865 | 39,678 |
| – Local government | <u>356,009</u> | <u>85,381</u> |
| Trade receivables – net | <u>444,002</u> | <u>126,000</u> |
| Other receivables: | | |
| – Third parties | 13,613 | 54,287 |
| – Related parties | 54,535 | 39,472 |
| – Local government | <u>81,393</u> | <u>51,590</u> |
| Other receivables – net | <u>149,541</u> | <u>145,349</u> |
| Prepayments: | | |
| – Listing expenses | – | 28,946 |
| – Others | <u>11,054</u> | <u>6,600</u> |
| Prepayments – net | <u>11,054</u> | <u>35,546</u> |
| Trade and other receivables – net | <u><u>604,597</u></u> | <u><u>306,895</u></u> |

As of June 30, 2017, our net trade and other receivables was approximately RMB604.6 million, increased by RMB297.7 million or 97.0% as compared to approximately RMB306.9 million as of December 31, 2016, primarily due to:

- (i) net trade receivables increased by RMB318.0 million, of which RMB270.6 million was the increase in balance of receivables from government wastewater treatment fee, mainly due to the fact that the government receivables would mainly be collected in the second half of the year, leading to more balance of trade receivables in the first half of the year compared to the end of the year.
- (ii) net other receivables increased by RMB4.2 million, of which RMB29.8 million was the increase of tax returns receivable from the State Administration of Taxation for the period. Other receivables from related parties increased by RMB15.1 million for the period, which was mainly because the interest on borrowing due from the related party increased by RMB14.9 million. Other receivables from third parties were offset by consolidating the investment amounting to RMB47.7 million in Hongze Water, Libao Water and Qutang Water, causing a decrease of RMB47.7 million. Other receivables from other clients increased by RMB6.0 million.
- (iii) net prepayments decreased by RMB24.5 million, of which RMB28.9 million was the decrease in prepayments relating to listing expenses for the period after capitalization while RMB4.5 million was the increase in other prepayments.

The aging analysis of trade receivables of our Group based on invoice date is shown as follows:

| | As at June 30, | As at December 31, |
|--------------------------------------|-----------------------|---------------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| – Within one year | 442,182 | 125,542 |
| – Over one year and within two years | 1,820 | 458 |
| | <u>444,002</u> | <u>126,000</u> |

Based on the past experience, the Directors believe that no impairment allowance of trade receivables is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these balances are considered fully recoverable.

The following table sets out our receivable turnover days for the periods indicated:

| | As at June 30, 2017 <i>Days</i> | As at December 31, 2016 <i>Days</i> |
|--|---|---|
| Trade receivables turnover days ⁽¹⁾ | 107 | 45 |
| Trade and other receivables turnover days ⁽²⁾ | 163 | 99 |

Notes:

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade receivables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.
- (2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade and other receivables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.

4. TRADE AND OTHER PAYABLES

Our trade and other payables primarily consist of trade payables, staff salaries and benefits payables, advance from customers, payables on acquisition of property, plant and equipment, interest payables, and accrued taxes other than income tax.

The following table shows the breakdown of our trade and other payables as of the dates indicated:

| | As at June 30, 2017 <i>RMB'000</i> | As at December 31, 2016 <i>RMB'000</i> |
|--|--|--|
| Trade payables | 3,725 | 2,093 |
| Other payables | 51,657 | 53,176 |
| Consideration unpaid for acquisition of business | – | 18,447 |
| Staff salaries and welfare payables | 17,800 | 28,661 |
| Advance from customers | 8,513 | 12,177 |
| Payables on purchase of property, plant and equipment | 150,589 | 151,957 |
| Payables on purchase of land use rights from related parties | 58,194 | 58,194 |
| Dividend payables | 102,911 | – |
| Interest payables | 17,318 | 1,310 |
| Accrued taxes other than income tax | 83,286 | 96,324 |
| | <u>493,993</u> | <u>422,339</u> |

As of June 30, 2017, our trade and other payables amounted to approximately RMB494.0 million, representing an increase of RMB71.7 million or 17.0% as compared to RMB422.3 million as of December 31, 2016. The increase was primarily due to: (i) an increase of RMB102.9 million for dividend payables for the period, which was primarily due to the total cash dividends of RMB102.9 million distributed from retained earnings as the cash dividend for the year ended December 31, 2016 to be distributed to the shareholders of the Company as approved by the shareholders at the 2016 annual general meeting held on June 19, 2017; (ii) an increase of RMB16.0 million for interest payables for the period compared to last year, which was primarily due to the interest payable on bonds being settled at the end of each year, with an amount of approximately RMB30.0 million for a full year, and a balance of approximately RMB15.0 million in the middle of year; (iii) a decrease of RMB18.4 million due to the settlement of the balance of consideration of RMB18.4 million during the period for acquisition of Malong Dianchi Water Treatment Co., Ltd. during last period; (iv) a decrease of RMB1.5 million for the balance of other payables for the period, which was primarily due to the fact that the listing related expenses have been successively settled as to approximately RMB2.8 million; (v) a decrease of approximately RMB10.9 million for the staff salaries payable for the Reporting Period, which was primarily due to provision of year-end bonus for half year in the middle of year while the balance at the end of year included the bonus provided for the whole year; (vi) a decrease of RMB13.0 million of tax payables for the Reporting Period. The tax payables has been paid during the Reporting Period.

The aging analysis of trade payables of our Group based on invoice date is as follows:

| | As at June 30, | As at December 31, |
|-----------------|-----------------------|---------------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| Within one year | 3,725 | 2,093 |

As at June 30, 2017 and December 31, 2016, all trade and other payables of our Group were non-interest bearing, and their fair values, except for the advances from customers which are not financial liabilities, approximate to their carrying amounts due to their short maturities.

The following table sets out our payable turnover days for the periods indicated:

| | As at June 30, | As at December 31, |
|---|-----------------------|---------------------------|
| | 2017 | 2016 |
| | Days | Days |
| Trade and other payables turnover days ⁽¹⁾ | 310 | 363 |
| Trade payables turnover days ⁽²⁾ | 19 | 19 |

Notes:

- (1) Calculated as the average trade payables for the relevant year divided by the revenue for the relevant year, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade payables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.
- (2) Calculated as the average trade and other payables for the relevant year divided by the revenue for the relevant year, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade and other payables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.

During the Reporting Period, our trade payables turnover days remained stable as compared with the same period last year.

Our directors confirm that up to June 30, 2017, there was no material default in payment of trade payables.

5. *INDEBTEDNESS*

(a) *Borrowings*

All of our borrowings are denominated in RMB and some are secured by our property, plant and equipment. (for details of our pledged assets, please refer to Note 8 to the financial statements)

The following table shows our borrowings as of the dates indicated:

| | As at June 30, 2017 <i>RMB'000</i> | As at December 31, 2016 <i>RMB'000</i> |
|-------------------------------------|--|--|
| Non-current: | | |
| Unsecured long-term borrowings | 30,000 | – |
| Secured long-term borrowings | 3,416 | 48,356 |
| Corporate bonds | 694,029 | 693,639 |
| | <u> </u> | <u> </u> |
| Total non-current borrowings | <u>727,445</u> | <u>741,995</u> |
| Current: | | |
| Unsecured short-term borrowings | 920,000 | 660,000 |
| Secured short-term borrowings | 99,934 | 118,737 |
| | <u> </u> | <u> </u> |
| Total current borrowings | <u>1,019,934</u> | <u>778,737</u> |
| | <u> </u> | <u> </u> |
| Total borrowings | <u>1,747,379</u> | <u>1,520,732</u> |

The weighted average effective interest rate at each balance sheet date was as follows:

| | As at June 30, 2017 | As at December 31, 2016 |
|---------------------------------|--------------------------------------|----------------------------|
| Average effective interest rate | <u>4.42%</u> | <u>4.78%</u> |

Our total borrowings amounted to approximately RMB1,747.4 million as of June 30, 2017, representing an increase of RMB226.7 million or 14.9% as compared to approximately RMB1,520.7 million in the same period of last year. Among our indebtedness, borrowings amounting to approximately RMB103.4 million as of June 30, 2017, were secured by our property, plant and equipment, representing a decrease of RMB63.7 million or 38.1% as compared to approximately RMB167.1 million in the same period of last year. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on December 25, 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company can adjust the interest rate for the remaining 2-year period, and the investors have an option to request early redemption of the outstanding corporate bond if they do not agree to the adjusted interest rate.

As of June 30, 2017, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us or had demanded any early repayment.

As of June 30, 2017, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As of June 30, 2017, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

| | As at June 30, 2017 | As at December 31, 2016 |
|----------------------------|--------------------------------|----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| On demand or within 1 year | 1,019,934 | 778,737 |
| Between 1 and 2 years | 33,416 | 48,356 |
| More than 5 years | 694,029 | 693,639 |
| | <u>1,747,379</u> | <u>1,520,732</u> |

As of June 30, 2017, our net gearing ratio (calculated as net debt divided by total capital at the end of the period, of which net debt is calculated as total borrowings less cash and cash equivalents at the end of the period; total capital is calculated as total equity plus net debt) was 9.1%, representing a decrease of 21.0% as compared to 30.1% as of December 31, 2016, primarily due to the cash obtained through listing.

Except as disclosed above, as of June 30, 2017, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

(b) *Commitments*

Our capital commitments contracted for at each balance sheet date, but not yet incurred are as follows:

| | As at June 30, 2017 <i>RMB'000</i> | As at December 31, 2016 <i>RMB'000</i> |
|---------------------------------------|--|--|
| Property, plant and equipment | 391,160 | 458,123 |
| Land use rights and intangible assets | 14,908 | 16,978 |
| | <u>406,068</u> | <u>475,101</u> |

(c) *Capital Expenditure*

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB43.1 million for the six months ended June 30, 2017, representing a decrease of 92.4% as compared to RMB568.1 million for the six months ended June 30, 2016. We expect to fund our contractual commitments and capital expenditures principally through cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the global offering of H Shares.

Our capital expenditure for each of our segments as at the dates indicated below is as follows:

| | As at June 30, 2017 <i>RMB'000</i> | 2016 <i>RMB'000</i> |
|----------------------|--|------------------------|
| Wastewater treatment | 41,084 | 566,385 |
| Water supply | 704 | 1,686 |
| Others | 1,278 | 34 |
| | <u>43,066</u> | <u>568,105</u> |

Based on our current business plan, we expect to incur capital expenditure amounting to RMB201.1 million for the year ending December 31, 2017. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

6. *EMPLOYEES AND REMUNERATION POLICIES*

As at June 30, 2017, we had 614 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of June 30, 2017:

| Function | Number |
|-------------------------------|--------------------------|
| Management and Administration | 81 |
| Finance | 16 |
| R&D | 40 |
| Quality Monitoring | 120 |
| Marketing | 15 |
| Operations | 326 |
| Construction and Maintenance | <u>16</u> |
| Total | <u><u>614</u></u> |

We recruit our employees on the open market. Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended June 30, 2017, our employee benefits and labor expenses amounted to approximately RMB48.4 million, representing an increase of 11.5% as compared to approximately RMB43.4 million for the six months ended June 30, 2016, primarily due to the Group's business expansion and the increases in wages and bonus.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we have in-house training programs to train our staff. New employees at our production facility receive trainings pertinent to their job duties. We also own the Kunming Dianchi Water Treatment Vocational Training School, which provides continuing training for our employees.

Our labor union communicates closely with the management regarding labor matters on behalf of our employees' interests. During the Reporting Period, we had not experienced any interruptions to our operations caused by major labor disputes and there were no complaints or claims from our employees which had a material adverse effect on our business. Our Directors believe that we maintain a good relationship with our employees. During the Reporting Period, the Group had no major labor disputes which might produce significant impact on the normal business operations of the Group.

7. *CONTINGENT LIABILITIES*

As of June 30, 2017, the Group did not have any material contingent liability.

8. **MAJOR INVESTMENT AND ACQUISITION**

We entered into a framework agreement on June 1, 2016 to acquire 100.0% equity interests in three wastewater treatment companies in Jiangsu Province, i.e. Qutang Water, Libao Water and Hongze Water, which had an aggregate designed wastewater treatment capacity of 50,000 m³ per day. On October 30, 2016, we entered into three share transfer agreements thereby to acquire such three foregoing wastewater treatment companies for a total consideration of RMB80.0 million. These transactions were completed in January 2017 and such three companies have been consolidated into the Group thereafter. These acquisitions and development would not produce any significant financial impact on the Group individually or in aggregate.

Save as the abovementioned acquisitions, during the Reporting Period, the Group does not have any major investment nor any plan for acquiring capital assets.

9. **MATERIAL LITIGATION**

As of June 30, 2017, the Group is not involved in any material or potential litigation.

III. **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the shareholders and protecting their interests. The Company has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the CG Code and has set up a series of corporate governance policies. The Directors believe that commencing from the listing date of the Company’s H Shares (“**Listing Date**”), the Company has been observing all mandatory code provisions as stipulated in the CG Code except for provision A.2.1.

Ms. Guo Yumei is the Chairperson and President of the Company. In accordance with provision A.2.1 of the CG Code, the roles of chairperson and chief executive should be separated and should not be held by the same person. Being aware of the said deviation from provision A.2.1 of the CG Code, but in view of the development of the Group and Ms. Guo’s extensive experience in the industry and long history with the Group, the Board believes that Ms. Guo concurrently acting as the Chairperson and President can facilitate the execution of the Group’s business strategies and enhance the operating efficiency. In addition, the Board comprises 3 independent non-executive Directors and 2 non-executive Directors, enabling the interest of the Company’s shareholders to be represented sufficiently and fairly under the supervision by the Board.

The Board will examine and review, from time to time, the Company’s corporate governance practices and operation in order to comply with the relevant provisions under the Listing Rules and to protect the Company’s shareholders’ interests.

IV. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES DEALINGS BY THE DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct for its Directors, Supervisors and relevant employees (has the same meaning ascribed to it under the CG Code) in respect of their dealings in the Company’s securities. After making specific enquiries to all of the Directors and Supervisors of the Company, the Directors and Supervisors of the Company confirmed that they had strictly complied with the required standards as set out in the Model Code during the period from the Listing Date to June 30, 2017.

V. PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended June 30, 2017.

VI. AUDIT COMMITTEE

The Audit Committee of the Company is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company. The Audit Committee has reviewed the unaudited interim results for the six months ended June 30, 2017 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VII. INTERIM DIVIDEND

The Board did not recommend any payment of interim dividend for the six months ended June 30, 2017 (six months ended June 30, 2016: nil).

VIII. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended June 30, 2017 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.kmdcwt.com>).

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Guo Yumei
Chairperson

Kunming, the PRC, August 18, 2017

As at the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Mr. Zeng Feng and Ms. Song Hong, as non-executive Directors; and Mr. Wong Man Chung Francis, Mr. Yin Xiaobing and Mr. He Xifeng, as independent non-executive Directors.