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

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

(Stock Code: 3768)

2018 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2018, the Group's:

- revenue amounted to approximately RMB556.9 million, representing an increase of 16.2% from the corresponding period of last year;
- profit before income tax amounted to approximately RMB158.4 million, representing an increase of 0.1% from the corresponding period of last year;
- net profit attributable to shareholders of the Company amounted to approximately RMB132.7 million, representing an increase of 0.3% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.13, representing a decrease of 13.3% 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 30 June 2018 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2017, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*6*	**556,878**	479,359
Cost of sales	*24*	**(318,135)**	(269,282)
Gross profit		**238,743**	210,077
Selling expenses	*24*	**(6,583)**	(6,265)
Administrative expenses	*24*	**(52,247)**	(52,783)
Research and development expenses	*24*	**(2,871)**	(4,322)
Other income	*22*	**20,105**	44,493
Other losses – net	*23*	**(605)**	(8)
Operating profit		**196,542**	191,192
Finance income	*25*	**14,860**	18,542
Finance costs	*25*	**(52,962)**	(51,935)
Finance costs – net	*25*	**(38,102)**	(33,393)
Share of results of associates		**(79)**	479
Profit before income tax		**158,361**	158,278
Income tax expense	*26*	**(25,100)**	(25,499)
Profit for the period		**133,261**	132,779
Profit attributable to:			
– The equity holders of the Company		**132,739**	132,337
– Non-controlling interests		**522**	442
		133,261	132,779

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**1,383**	(516)
Total comprehensive income for the period		**134,644**	132,263
Total comprehensive income attributable to:			
– The equity holders of the Company		**134,122**	131,821
– Non-controlling interests		**522**	442
		134,644	132,263
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	*27*	**0.13**	0.15

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Note	**Unaudited 30 June 2018 *RMB'000***	Audited 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Land use rights	*8*	**441,350**	445,974
Long-term prepayments		**–**	450,000
Property, plant and equipment	*9*	**2,831,063**	2,342,663
Receivables under service concession arrangements	*10*	**719,321**	529,997
Amounts due from customers for construction contracts	*15*	**306,081**	238,383
Intangible assets	*11*	**188,611**	135,099
Investments in associates	*12*	**15,178**	15,257
Prepayments for acquisition of subsidiaries	*7*	**–**	43,356
Deferred income tax assets	*13*	**39,510**	32,957
		4,541,114	4,233,686
Current assets			
Receivables under service concession arrangements	*10*	**19,084**	13,747
Inventories		**8,188**	7,515
Amounts due from customers for construction contracts	*15*	**17,318**	12,296
Financial assets at fair value through profit or loss	*3*	**250,000**	–
Available-for-sale financial assets	*3*	**–**	80,000
Trade and other receivables	*14*	**1,187,889**	386,397
Cash and cash equivalents	*16*	**1,452,060**	1,291,170
		2,934,539	1,791,125
Total assets		**7,475,653**	6,024,811

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2018

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred revenue	*20*	**197,083**	157,479
Borrowings	*19*	**1,622,881**	1,091,625
Deferred income tax liabilities	*13*	**55,472**	39,848
		1,875,436	1,288,952
Current liabilities			
Trade and other payables	*21*	**473,309**	369,850
Current income tax liabilities		**54,844**	60,238
Borrowings	*19*	**1,383,363**	599,570
Contract liabilities	*3*	**6,144**	–
		1,917,660	1,029,658
Total liabilities		**3,793,096**	2,318,610
Net assets		**3,682,557**	3,706,201
EQUITY			
Share capital	*17*	**1,029,111**	1,029,111
Other reserves	*18*	**1,415,320**	1,413,937
Retained earnings		**1,232,633**	1,257,039
Capital and reserve attributable to equity holders of the Company		**3,677,064**	3,700,087
Non-controlling interests		**5,493**	6,114
Total equity		**3,682,557**	3,706,201

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

		Unaudited					
		Capital and reserves attributable to equity holders of the Company					
	Note	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 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)
Transactions with owners:							
Proceeds from issuance of H shares, net off listing expenses		309,111	688,349	–	997,460	–	997,460
Dividend declared		–	–	(102,911)	(102,911)	–	(102,911)
As at 30 June 2017		1,029,111	1,384,346	1,107,221	3,520,678	5,544	3,526,222
As at 1 January 2018		**1,029,111**	**1,413,937**	**1,257,039**	**3,700,087**	**6,114**	**3,706,201**
Comprehensive income:							
Profit for the period		**–**	**–**	**132,739**	**132,739**	**522**	**133,261**
Currency translation difference		**–**	**1,383**	**–**	**1,383**	**–**	**1,383**
Transactions with owners:							
Dividend declared	*28*	**–**	**–**	**(157,145)**	**(157,145)**	**(1,143)**	**(158,288)**
As at 30 June 2018		**1,029,111**	**1,415,320**	**1,232,633**	**3,677,064**	**5,493**	**3,682,557**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June **2018** ***RMB'000***	 2017 *RMB'000*
Cash flows from operating activities			
Cash used in operations	*29*	**(112,090)**	(185,799)
Interest paid		**(26,036)**	(12,974)
Income tax paid		**(35,841)**	(38,750)
Net cash used in operating activities		**(173,967)**	(237,523)
Cash flows from investing activities			
Acquisition of business, net of cash acquired	*7(iii)*	**(131,308)**	(15,817)
Purchase of property, plant and equipment		**(118,777)**	(41,998)
Purchase of intangible assets		**(138)**	(2,436)
Funds granted to related parties	*31(b)(ii)*	**(600,000)**	(31,366)
Funds repayments received from related parties	*31(b)(iii)*	**–**	31,366
Interest received		**10,053**	3,849
Government grants received relating to purchase of property, plant and equipment		**41,620**	14,620
Investments in financial assets at fair value through profit or loss		**(250,000)**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**80,000**	–
Net cash used in investing activities		**(968,550)**	(41,782)
Cash flows from financing activities			
Payments for listing expenses		**–**	(46,718)
Gross proceeds from issuances of H shares	*17*	**–**	1,072,291
Proceeds from borrowings		**1,682,894**	450,000
Dividends declared and paid to non-controlling interests in subsidiaries		**(1,143)**	–
Repayments of borrowings		**(380,324)**	(228,328)
Net cash generated from financing activities		**1,301,427**	1,247,245
Net increase in cash and cash equivalents		**158,910**	967,940
Cash and cash equivalents at beginning of the period		**1,291,170**	446,830
Exchange gains/(losses)		**1,980**	(18,427)
Cash and cash equivalents at end of the period		**1,452,060**	1,396,343

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

1 GENERAL INFORMATION

Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") was incorporated in Yunnan Province of the PRC on 23 December 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 Kunming Dianchi No. 7 Water Treatment Plant. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEX**") on 6 April 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 on pages 2 to 41 were approved for issue by the Board on 17 August 2018.

This condensed consolidated interim financial information has not been audited.

Significant changes in the current reporting period

The operational highlights of the period were the acquisition of companies engaged in water treatment business and wastewater treatment facilities of Kunming No. 10 Water Purification Plant. Further details are given in Note 7 and Note 9(a) respectively.

For a detailed discussion about the Group's performance and financial position please refer to our review of operations on pages 42 to 65.

2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2.1 New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2 BASIS OF PREPARATION (continued)

2.2 Impact of standards issued but not yet applied by the entity

(a) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB6,459,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3.1 Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 3.2 below, IFRS 9 and IFRS15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	As at 1 January 2018		
	As previously stated	**Adjustments under IFRS 9 and IFRS 15**	**Restated**
	RMB'000	***RMB'000***	***RMB'000***
Interim condensed consolidated balance sheet (extract)			
Current assets			
Financial assets at fair value through profit or loss (FVPL)	**–**	**80,000**	**80,000**
Available-for-sale financial assets	**80,000**	**(80,000)**	**–**
Total Assets	**80,000**	**–**	**80,000**
Current liabilities			
Contract liabilities	**–**	**6,124**	**6,124**
Trade and other payables	**369,850**	**(6,124)**	**363,726**
Total liabilities	**369,850**	**–**	**369,850**

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3.3 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting.

The adoption of IFRS 9 has no impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017.

(a) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	**FVPL**	**Financial assets at fair value through other comprehensive income (FVOCI) (Available-for-sale 2017)**
	RMB'000	*RMB'000*
Closing balance 31 December 2017 – IAS 39*	–	80,000
Reclassify investments from available-for-sale to FVPL [(i)]	80,000	(80,000)
Opening balance 1 January 2018 – IFRS 9	80,000	–

* The closing balances as at 31 December 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories.

(i) Reclassification from available-for-sale to FVPL

Structured deposit were reclassified from available-for-sale to financial assets at FVPL (RMB80,000,000 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

As of the six months ended 30 June 2018, net fair value gains of RMB300,000 relating to these investments were recognised in profit or loss.

(b) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- receivables under service concession arrangements and contraction contracts
- trade receivables for provision of wastewater treatment and other services

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The identified impairment loss was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.3 IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(a) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.3 IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

(a) Investments and other financial assets (continued)

Debt instruments (continued)

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3.4 IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and reclassifications to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the modified retrospectively approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. In summary, the following reclassifications were made to the amounts recognised in the interim condensed consolidated balance sheet at the date of initial application (1 January 2018):

		As at 1 January 2018		
		As previously stated *RMB'000*	**Reclassification under IFRS 15** *RMB'000*	**Restated** *RMB'000*
Interim condensed consolidated balance sheet (extract)				
Trade and other payables	*(i)*	**369,850**	**(6,124)**	**363,726**
Contract liabilities	*(i)*	**–**	**6,124**	**6,124**
Total liabilities		**369,850**	**–**	**369,850**

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.4 IFRS 15 Revenue from Contracts with Customers – Impact of adoption (continued)

The amount by each financial statements line items affected in the current year and year to date by the application of IFRS 15 as compared to IAS 18 that were previously in effect before the adoption of IFRS 15 is as follows:

		As at 30 June 2018		
		Amounts without the adoption of IFRS 15	**Effects of the adoption of IFRS 15**	**Amounts as reported**
		RMB'000	***RMB'000***	***RMB'000***
Interim condensed consolidated balance sheet (extract)				
Trade and other payables	*(i)*	**479,453**	**(6,144)**	**473,309**
Contract liabilities	*(i)*	**–**	**6,144**	**6,144**
Total liabilities		**479,453**	**–**	**479,453**

(i) Presentation of assets and liabilities related to contracts with customers

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to construction and other contracts were previously presented as part of trade and other payables (RMB6,124,000 as at 1 January 2018).

3.5 IFRS 15 Revenue from Contracts with Customers – Accounting policies

(i) Rendering of wastewater treatment and other services

Revenue from wastewater treatment operation and other services is recognised when the services are rendered.

(ii) Water supply services

Revenue from water supply services is recognised when a Group entity has delivered water to the customer; the customer has accepted the water and collectability of the related receivables is reasonably assured.

(iii) Revenue from construction contracts

Revenue from construction service is recognised on the percentage-of-completion method.

(iv) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

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 31 December 2017 of the group.

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 31 December 2017 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 30 June 2018, 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 RMB2,498,000 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 of 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 30 June 2018, the ageing analysis of trade receivables is set out in Note 14. 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 30 June 2018. 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 30 June 2018.

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*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
As at 30 June 2018 (Unaudited)					
Borrowings	**1,510,205**	**234,419**	**1,519,831**	**123,277**	**3,387,732**
Financial liabilities included in trade and other payables	**407,108**	**–**	**–**	**–**	**407,108**
	1,917,313	**234,419**	**1,519,831**	**123,277**	**3,794,840**

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2017 (Audited)					
Borrowings	650,263	358,682	873,233	–	1,882,178
Financial liabilities included in trade and other payables	230,882	–	–	–	230,882
	881,145	358,682	873,233	–	2,113,060

5.5 Fair value estimation

(a) The table below presents financial instruments carried at fair value, by different measurement methods. The measurement levels are 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 following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

At 30 June 2018 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets				
Financial assets at fair value through profit or loss (FVPL)	**250,000**	**–**	**–**	**250,000**

At 31 December 2017 (Audited)	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale financial assets	80,000	–	–	80,000

(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 carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- 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, non-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 AND REVENUE 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 six months ended 30 June 2018 and 2017 are set out as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Wastewater treatment	**474,987**	383,203
Operating services – under TOO model	**393,797**	337,047
Operating services – under TOT/BOT model	**29,860**	17,360
Construction services – under BT model	**12,629**	–
Construction services – under BOT model	**26,593**	19,180
Finance income	**12,108**	9,616
Reclaimed water supply and running water supply	**22,072**	49,455
Operating services –under TOO model	**7,818**	5,617
Operating services – under TOT/BOT model	**6,084**	3,629
Construction services – under BT model	**–**	3,062
Construction services – under BOT model	**7,261**	36,216
Finance income	**909**	931
Others	**59,819**	46,701
Management services	**36,475**	38,457
Transportation services	**1,871**	1,566
Others	**21,473**	6,678
	556,878	479,359

6 **SEGMENT AND REVENUE INFORMATION** (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June 2018 (Unaudited)			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**474,987**	**22,072**	**59,819**	**556,878**
Segment gross profit	**208,467**	**1,191**	**29,085**	**238,743**
Segment profit	**173,074**	**(586)**	**24,054**	**196,542**
Finance income				**14,860**
Finance costs				**(52,962)**
Share of results of associates				**(79)**
Profit before income tax				**158,361**
Other information				
Depreciation of property, plant and equipment	**86,224**	**8,393**	**9,409**	**104,026**
Amortisation of land use rights	**4,624**	**–**	**–**	**4,624**
Amortisation of intangible assets	**4,297**	**–**	**–**	**4,297**
Capital expenditure	**568,836**	**22,509**	**480**	**591,825**

	As at 30 June 2018 (Unaudited)			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**6,446,416**	**361,179**	**613,370**	**7,420,965**
Unallocated:				
Deferred income tax assets				**39,510**
Investments in associates				**15,178**
Total assets				**7,475,653**
Segment liabilities	**3,373,833**	**(15,188)**	**324,135**	**3,682,780**
Unallocated:				
Deferred income tax liabilities				**55,472**
Current income tax liabilities				**54,844**
Total liabilities				**3,793,096**

6 SEGMENT AND REVENUE INFORMATION (continued)

(b) Segment information (continued)

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

	For the six months ended 30 June 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 costs				(51,935)
Share of results of associates				479
Profit before income tax				158,278
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	41,084	704	1,278	43,066

	As at 31 December 2017 (Audited)			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	5,605,826	352,835	17,936	5,976,597
Unallocated:				
Deferred income tax assets				32,957
Investments in associates				15,257
Total assets				6,024,811
Segment liabilities	2,199,632	13,608	5,284	2,218,524
Unallocated:				
Deferred income tax liabilities				39,848
Current income tax liabilities				60,238
Total liabilities				2,318,610

6 SEGMENT AND REVENUE INFORMATION (continued)

(c) Geographical information

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

(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:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Customer A	**261,139**	234,875
Customer B	**103,030**	95,261
	364,169	330,136

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. If the 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 19 January 2018, the Group acquired 100% of the equity interests in Zhuji Dongdaciwu Wastewater Co., Ltd. (諸暨市東大次塢污水處理有限公司 "**Dongda Water**") at a consideration of RMB83,443,000. After the acquisition, Dongda Water became a directly owned subsidiary of the Group.

Dongda 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 19 January 2018
	RMB'000
Consideration:	
Cash consideration	**83,443**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**53**
Receivables under service concession arrangements	**64,123**
Property, plant and equipment	**66**
Intangible assets	**57,671**
Inventory	**115**
Trade and other receivables	**14,346**
Trade and other payables	**(38,513)**
Deferred income tax liabilities	**(14,418)**
Total identifiable net assets	**83,443**

Intangible assets of RMB57,671,000 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 30 June 2018 contributed by Dongda Water was approximately RMB13,969,000. Dongda Water also contributed profit of approximately RMB2,240,000 over the same period.

7 **BUSINESS COMBINATIONS** (continued)

(ii) On 25 January 2018, the Group acquired 100% of the equity interests in Leshan Debei'ao Water Co., Ltd. (樂山德貝奧水務有限公司 "**Debei'ao Water**"), at a consideration of RMB80,230,000. After the acquisition, Debei'ao Water became a directly owned subsidiary of the Group.

Debei'ao 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 25 January 2018 *RMB'000*
Consideration:	
Cash consideration	**80,230**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**117**
Amount due from customers for construction contracts	**50,170**
Receivables under service concession arrangements	**86,739**
Property, plant and equipment	**673**
Trade and other receivables	**2,372**
Trade and other payables	**(59,841)**
Total identifiable net assets	**80,230**

Receivables under service concession arrangements of RMB86,739,000 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 30 June 2018 contributed by Debei'ao Water was approximately RMB1,508,000. Debei'ao Water also contributed loss of approximately RMB431,000 over the same period.

(iii) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the six months ended 30 June 2018:

		As at 30 June 2018 *RMB'000*
Total cash consideration		**163,673**
Less:	Cash and cash equivalents in the subsidiaries acquired	**(170)**
	Change in consideration payable in respect of acquisition of business	**11,161**
	Change in prepayments for acquisition of subsidiaries	**(43,356)**
Cash outflows from the acquisitions		**131,308**

8 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Opening net book value	**445,974**	433,484
Acquisition of subsidiaries	**–**	6,807
Amortisation charges *(Note 24)*	**(4,624)**	(4,914)
Closing net book value	**441,350**	435,377

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	**Machinery and equipment**	**Office and electronic equipment**	**Motor vehicles**	**Construction in progress**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
(Unaudited)						
Six months ended 30 June 2018						
Opening net book value	**1,459,581**	**391,385**	**50,491**	**11,588**	**429,618**	**2,342,663**
Additions *(a)*	**270,934**	**237,483**	**1,930**	**262**	**81,078**	**591,687**
Transfer	**–**	**281**	**51**	**–**	**(332)**	**–**
Acquisition of subsidiaries *(Note 7)*	**–**	**–**	**174**	**565**	**–**	**739**
Depreciation *(Note 24)*	**(49,987)**	**(48,548)**	**(3,945)**	**(1,546)**	**–**	**(104,026)**
Closing net book value	**1,680,528**	**580,601**	**48,701**	**10,869**	**510,364**	**2,831,063**

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities *RMB'000*	Machinery and equipment *RMB'000*	Office and electronic equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
(Unaudited)						
Six months ended 30 June 2017						
Opening net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
Additions	729	754	335	–	38,812	40,630
Transfer	28,482	–	–	–	(28,482)	–
Acquisition of subsidiaries	7,379	2,796	179	–	–	10,354
Depreciation *(Note 24)*	(38,966)	(36,362)	(5,442)	(1,641)	–	(82,411)
Closing net book value	1,435,214	424,473	54,514	13,111	410,350	2,337,662

(a) The additions during the six months ended 30 June 2018 primarily included the assets of Kunming No. 10 Water Purification Plant acquired in 2018 of RMB502,919,000 (value-added tax excluded).

(b) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 19) as at the respective balance sheet dates were as follows:

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Buildings and facilities	**477,256**	274,455
Machinery and equipment	**76,532**	110,460
	553,788	384,915

10 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 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Receivables under service concession arrangements		
Current portion:	**19,084**	13,747
Non-current portion:	**719,321**	529,997
	738,405	543,744

10 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS (continued)

The effective interest rate fell within the range from 6.51% 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 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 30 June 2018 and 31 December 2017.

11 INTANGIBLE ASSETS

	Computer software *RMB'000*	**Operating concession** *RMB'000*	**Other intangible assets** *RMB'000*	**Total** *RMB'000*
(Unaudited)				
Six months ended 30 June 2018				
Opening amount as at 1 January 2018	**14,359**	**110,898**	**9,842**	**135,099**
Additions	**122**	**–**	**16**	**138**
Acquisition of subsidiaries *(Note 7)*	**–**	**57,671**	**–**	**57,671**
Amortisation *(Note 24)*	**(2,159)**	**(2,138)**	**–**	**(4,297)**
Closing net book amount as at 30 June 2018	**12,322**	**166,431**	**9,858**	**188,611**

	Computer software *RMB'000*	Operating concession *RMB'000*	Other intangible assets *RMB'000*	Total *RMB'000*
(Unaudited)				
Six months ended 30 June 2017				
Opening net book value	14,430	49,901	10,866	75,197
Additions	2,374	–	62	2,436
Acquisition of subsidiaries	–	8,157	–	8,157
Amortisation *(Note 24)*	(1,593)	(693)	–	(2,286)
Closing net book value	15,211	57,365	10,928	83,504

12 INVESTMENTS IN ASSOCIATES

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

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Beginning of the period	**15,257**	15,101
Share of associates' results	**(79)**	479
End of the period	**15,178**	15,580

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

	Assets	**Liabilities**	**Revenues**	**Loss**	**Net assets**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
As at 30 June 2018/ six months ended 30 June 2018 (unaudited)	**11,495**	**2,097**	**95**	**(79)**	**9,398**

No individual associate is considered as material to the Group.

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	**1,281**	5,365
– to be recovered after more than 12 months	**38,229**	27,592
	39,510	32,957
Deferred income tax liabilities:		
– to be recovered within 12 months	**1,336**	890
– to be recovered after more than 12 months	**54,136**	38,958
	55,472	39,848

Movement in deferred income tax assets and liabilities during the six months ended 30 June 2018 and 2017, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	Unaudited Six months ended 30 June	
Deferred income tax assets	**2018**	2017
	RMB'000	*RMB'000*
At the beginning of the period	**33,160**	24,404
Recognised in the consolidated statements of comprehensive income *(Note 26)*	**6,501**	(300)
At the end of the period	**39,661**	24,104

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax assets as at 30 June 2018 and 2017 were mainly related to government grant, tax losses carried forward, unrealised foreign exchange losses 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 30 June 2018** *RMB'000*	2017 *RMB'000*
At the beginning of the period	**40,051**	10,028
Acquisition of subsidiaries	**14,418**	2,039
Recognised in the consolidated statements of comprehensive income *(Note 26)*	**1,154**	1,031
At the end of the period	**55,623**	13,098

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 30 June 2018 and 2017.

14 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	**14,790**	4,852
– Related parties *(Note 31)*	**72,519**	95,467
– Local government	**372,700**	146,232
Trade receivables – net	**460,009**	246,551
Notes receivables:	**5,248**	–
Other receivables:		
– Third parties	**20,485**	5,176
– Related parties *(Note 31)*	**625,909**	68,857
– Local government	**4,487**	55,665
– Deductable VAT and prepaid tax	**49,762**	–
Other receivables – net	**700,643**	129,698
Prepayments:		
– Related parties *(Note 31)*	**444**	–
– Others	**21,545**	10,148
Prepayments – net	**21,989**	10,148
Trade and other receivables – net	**1,187,889**	386,397

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

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

14 **TRADE AND OTHER RECEIVABLES** (continued)

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, are as follows:

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
– Within one year	**442,508**	243,528
– Over one year and within two years	**17,501**	3,023
	460,009	246,551

Based on the past experiences, the directors believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and 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 **AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS**

Costs incurred to date plus recognised profits less recognised losses:

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:	**17,318**	12,296
Non-current portion:	**306,081**	238,383
	323,399	250,679

Amounts due from customers for construction contracts of RMB50,170,000 was acquired from the acquisition of Debei'ao Water in January 2018 (Note 7 (ii)).

16 CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Cash and cash equivalents	**1,452,060**	1,291,170

(a) Cash and cash equivalents are denominated in:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
RMB	**1,150,417**	990,739
HKD	**293,931**	297,824
USD	**7,712**	2,607
	1,452,060	1,291,170

(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 ranged from 0.35% to 1.80% during the six months ended 30 June 2018 (2017: 0.35%).

17 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares *(thousands)*	**Share capital** *RMB'000*
(Unaudited)		
At 1 January 2018 and 30 June 2018	**1,029,111**	**1,029,111**
At 1 January 2017	720,000	720,000
H shares issued *(Note (a))*	309,111	309,111
At 30 June 2017	1,029,111	1,029,111

(a) On 6 April 2017, the Company newly issued 308,572,000 H shares of RMB1.00 each 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 10 May 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 309,111,000 was credited to share capital with remaining RMB688,349,000 credited to share premium (Note 18).

18 OTHER RESERVES

	Share premium *RMB'000*	Statutory reserve *RMB'000*	Capital reserve *RMB'000*	Translation reserve *RMB'000*	Total *RMB'000*
At 1 January 2018	**1,283,440**	**180,137**	**(47,793)**	**(1,847)**	**1,413,937**
Currency translation differences	**–**	**–**	**–**	**1,383**	**1,383**
At 30 June 2018 (unaudited)	**1,283,440**	**180,137**	**(47,793)**	**(464)**	**1,415,320**
At 1 January 2017	595,091	149,215	(47,793)	–	696,513
Proceeds from H shares issued *(Note (17))*	688,349	–	–	–	688,349
Currency translation differences	–	–	–	(516)	(516)
At 30 June 2017 (unaudited)	1,283,440	149,215	(47,793)	(516)	1,384,346

19 BORROWINGS

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Non-current:		
Unsecured long-term borrowings	**419,000**	397,000
Secured long-term borrowings *(Note (b))*	**508,801**	–
Corporate bonds *(Note (c))*	**695,080**	694,625
Total non-current borrowings	**1,622,881**	1,091,625
Current:		
Unsecured short-term borrowings	**1,288,000**	552,000
Secured short-term borrowings *(Note (b))*	**95,363**	47,570
Total current borrowings	**1,383,363**	599,570
Total borrowings	**3,006,244**	1,691,195

19 BORROWINGS (continued)

(a) All the borrowings were denominated in RMB.

(b) As at 30 June 2018 and 31 December 2017, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Secured by:		
Property, plant and equipment	**604,164**	47,570

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company can adjust the interest rate within the range of 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.

(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 *RMB'000*	**Between 6 and 12 months** *RMB'000*	**Between 1 and 5 years** *RMB'000*	**Total** *RMB'000*
As at 30 June 2018 (Unaudited)	**1,589,229**	**718,466**	**698,549**	**3,006,244**
As at 31 December 2017 (Audited)	372,063	227,507	1,091,625	1,691,195

(e) The maturity of borrowings is as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
On demand or within 1 year	**1,383,362**	599,570
Between 1 and 2 years	**156,502**	317,000
Between 2 and 5 years	**1,370,053**	80,000
Later than 5 years	**96,327**	694,625
	3,006,244	1,691,195

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

	Unaudited 30 June 2018	Audited 31 December 2017
Borrowings	**5.26%**	4.58%

19 BORROWINGS (continued)

(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 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
RMB facilities	**63,000**	1,301,000

20 DEFERRED REVENUE

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

Government grants relating to 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 that they are intended to compensate.

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Government grants related to:		
– property plant and equipment	**190,996**	151,372
– research and development activities	**6,087**	6,107
	197,083	157,479

The movement of government grants during the six months ended 30 June 2018 and 2017 is set out as follows:

	Unaudited Six months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Opening net book value	**157,479**	107,121
Additions	**41,620**	14,620
Amortisation *(Note 22)*	**(2,016)**	(8,362)
Closing net book value	**197,083**	113,379

21 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Trade payables	**6,929**	3,802
Other payables due to:	**76,104**	71,899
– related parties *(Note 31)*	**18,081**	18,171
– local government	**3,310**	4,416
– third parties	**54,713**	49,312
Consideration payable for acquisition of business *(Note 7)*	**1,529**	12,690
Staff salaries and welfare payables	**19,327**	28,667
Advance from customers	**–**	6,124
– related parties *(Note 31)*	**–**	4,222
– local government	**–**	101
– third parties	**–**	1,801
Payables on acquisition of property, plant and equipment due to:	**107,207**	84,297
– related parties *(Note 31)*	**66,335**	32,521
– third parties	**40,872**	51,776
Payables on acquisition of land use rights from related parties *(Note 31)*	**58,194**	58,194
Dividend payables *(Note 28)*	**157,145**	–
Interest payables	**18,403**	2,021
Accrued taxes other than income tax	**28,471**	102,156
	473,309	369,850

(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 analysis of trade payables to third parties at the respective balance sheet dates is as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
– Within one year	**6,244**	3,471
– Over one year and within two years	**685**	331
	6,929	3,802

22 OTHER INCOME

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Government grants:	**10,289**	39,863
– relating to property plant and equipment *(Note 20)*	**1,996**	5,025
– relating to research and development activities *(Note 20)*	**20**	3,337
– relating to tax refund *(Note (a))*	**8,273**	31,501
Interest income from cash and cash equivalents	**2,494**	3,449
Gain on financial assets at fair value through profit or loss	**724**	–
Others	**6,598**	1,181
	20,105	44,493

(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 1 July 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.

23 OTHER LOSSES – NET

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Donation expenses	**572**	–
Others	**33**	8
	605	8

24 EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Depreciation of properties, plant and equipment *(Note 9)*	**104,026**	82,411
Cost of construction services	**59,878**	58,458
Employee benefit expenses	**59,682**	48,394
Utilities and electricity	**55,904**	41,077
Costs of wastewater and water distribution services	**27,412**	19,943
– Material costs	**17,080**	14,173
– Costs for sludge and water hyacinth treatment	**10,332**	5,770
Taxes and levies	**14,638**	15,495
Professional expenses	**12,353**	11,093
Labour costs	**11,597**	9,227
Repair and maintenance costs	**8,462**	6,053
Amortisation of land use rights *(Note 8)*	**4,624**	4,914
Transportation costs	**4,481**	3,228
Amortisation of intangible assets *(Note 11)*	**4,297**	2,286
Commission charge *(Note 31)*	**4,071**	3,699
Office expenditures	**3,515**	3,049
Material used in research and development activities	**2,552**	2,640
Auditor's remuneration	**1,745**	1,928
Listing expenses	**–**	13,255
Miscellaneous	**599**	5,502
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**379,836**	332,652

25 FINANCE COSTS – NET

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Finance income:		
– Interest income charged to related parties *(Note 31)*	**11,182**	14,693
– Interest income arising from construction contracts	**3,678**	3,849
	14,860	18,542
Finance costs:		
– Interest expenses on borrowings	**(57,995)**	(39,194)
– Less: borrowing costs capitalised in property, plant and equipment	**3,098**	5,237
– Interest expenses – net	**(54,897)**	(33,957)
– Exchange gain/(loss)	**1,980**	(17,911)
– Others	**(45)**	(67)
	(52,962)	(51,935)
Finance costs – net	**(38,102)**	(33,393)

26 INCOME TAX EXPENSE

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

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**30,447**	24,168
Deferred income tax *(Note 13)*	**(5,347)**	1,331
Income tax expense	**25,100**	25,499

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 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the six months ended 30 June 2018 and 2017, 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:

(a) 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 30 June 2018 and 2017, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.

(b) 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.

(c) 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.

(d) The forecasted effective tax rate for the year ending 31 December 2018 is 15.85% and the effective tax rate for the year ended 31 December 2017 was 16.11%.

27 EARNINGS PER SHARE

(a) 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 30 June	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**132,739**	132,337
Weighted average number of ordinary shares in issue *(thousand)*	**1,029,111**	865,061
Basic earnings per share *(RMB)*	**0.13**	0.15

(b) 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 30 June 2018 and 2017.

28 DIVIDENDS

As approved by the shareholders' meeting held on 22 June 2018, the Company determined to pay a cash dividend for the year ended 31 December 2017 of RMB0.1527 (tax inclusive) for every ordinary share amounting to RMB157,145,000 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 31 December 2017, but have been reflected as dividends distribution for the six months ended 30 June 2018. The 2017 dividends are expected to be paid by end of August 2018.

29 CASH USED IN OPERATING ACTIVITIES

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

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period before income tax	**158,361**	158,278
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 24)*	**104,026**	82,411
– Amortisation of land use rights *(Note 24)*	**4,624**	4,914
– Amortisation of intangible assets *(Note 24)*	**4,297**	2,286
– Government grants relating to property, plant and equipment *(Note 22)*	**(1,996)**	(5,025)
– Share of results of associates *(Note 12)*	**79**	(479)
– Finance costs – net	**38,057**	33,326
	307,498	275,711
Changes in working capital:		
– Increase in trade and other receivables	**(183,645)**	(229,958)
– (Increase)/decrease in inventories	**(558)**	539
– (Increase)/decrease in amount due from customers for construction contracts	**(18,872)**	4,174
– Increase in receivables under service concession arrangements	**(43,799)**	(57,194)
– Decrease in deferred revenue relating to research and development activities	**(20)**	(3,337)
– Decrease in trade and other payables	**(172,644)**	(175,734)
Cash used in from operations	**(112,090)**	(185,799)

30 COMMITMENTS

(a) Capital commitments

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

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
Property, plant and equipment	**51,127**	101,957

30 COMMITMENTS (continued)

(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 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
No later than 1 year	**331**	121
Later than 1 year and no later than 2 year	**305**	121
Later than 2 year and no later than 5 year	**954**	363
Later than 5 years	**4,869**	2,253
	6,459	2,858

31 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 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 30 June 2018 and 2017, and balances arising from related party transactions as at 30 June 2018 and 31 December 2017.

(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
Kunming Industrial Development and Construction Co., Ltd. (昆明產業開發投資有限責任公司, "**KIDC**")	Controlled by Kunming SASAC
Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, "**Kunming Bus**")	Controlled by Kunming SASAC

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2018 and 2017, 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 30 June	
	2018	2017
	RMB'000	*RMB'000*
KDI	**502,919**	–

(ii) Loans granted to related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
KIDC	**300,000**	–
Kunming Bus	**300,000**	–
KDI	**–**	31,366
	600,000	31,366

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable within one year.

(iii) Loans repaid from related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
KDI	**–**	31,366

(iv) Interest income from related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
KIDC	**5,646**	–
Kunming Bus	**5,536**	–
KDI	**–**	14,693
	11,182	14,693

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(v) Transportation services provided to related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Dianchi Lakes	**–**	396

(vi) Management services provided to related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
KDI	**26,258**	41,547

(vii) Commission charged by related parties:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Kunming CGE	**3,433**	3,344
Kunming Qingyuan	**638**	355
	4,071	3,699

(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 30 June	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**834**	764
Contributions to pension plans	**126**	124
Housing fund, medical insurance and other social insurance	**217**	199
	1,177	1,087

31 **RELATED PARTY TRANSACTIONS** (continued)

(d) Balances with related parties

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

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
KIDC	**300,502**	–
Kunming Bus	**300,627**	–
KDI	**46,484**	112,708
Xindu Investment	**24,232**	24,232
Kunming CGE	**20,298**	19,685
Kunming Qingyuan	**6,729**	7,699
	698,872	164,324

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

(ii) Trade and other payables due to related parties:

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
Acquisition of property plant and equipment:		
KDI	**50,295**	16,481
Xindu Investment	**16,040**	16,040
Acquisition of land use rights:		
KDI	**27,194**	27,194
Xindu Investment	**31,000**	31,000
Others:		
KDI	**17,513**	17,513
Kunming CGE	**305**	355
Kunming Qingyuan	**263**	303
	142,610	108,886

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

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

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
KDI	**4,026**	4,222

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

The Group is a leading enterprise in the municipal wastewater treatment and reclaimed water supply service industry in Yunnan Province, PRC, and the largest wastewater treatment enterprise in Yunnan Province, PRC, enjoying exclusive rights to provide wastewater treatment services to Kunming and other regions of China. The franchise rights help the Company maintain and solidify its operational advantages and competitive position in the water services market in Yunnan Province. By leveraging on the franchise-based business model, technologies, project execution and business expansion within the service areas, we have achieved stable income and business growth, which laid a favorable foundation for us to integrate water resources outside Yunnan Province and expand the off-site market to achieve cross-regional operations.

In 2017, Chairman Xi Jinping stressed in his report at the 19th CPC National Congress that the principal contradiction facing Chinese society now is the contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life, the need for a better life is no longer a single material and cultural need in the past, but the needs for various aspects including the high-quality ecological environment; the unbalanced and inadequate development covers the unbalanced development in the field of ecological civilization construction, and survival and ecology, sufficient living and environmental protection are no longer a mutually exclusive single-choice question, and the growing demands of the people on the environment are also becoming more prominent, which means that the environmental governance in the new era has changed from basically sticking to the bottom line to meeting the higher environmental needs of the people. With "unitary domination with diversified development" as the industrial investment direction, we will seek multi-level and all-round strategic cooperation by focusing on water environment governance and related environmental protection industries, and will build a complete industrial chain integrating source water, water supply, running water, wastewater treatment and reclaimed water utilization, so as to provide better environmental products and environmental services for catering for the environmental needs of the people and the green development of the country.

The period between the 19th and the 20th National Congress is the period in which the timeframes of the two centenary goals converge. In this period, not only must China finish building a moderately prosperous society in all respects and achieve the first centenary goal, it must also build on this achievement to embark on a new journey toward the second centenary goal of fully building a modern socialist country, which will become the important sources of long-term development and favorable policies for the environmental protection industry.

1. Overview of Wastewater Treatment Industry

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》) issued by the PRC government states that, as the wastewater treatment is a key link to improve the urban water ecological environment, it will achieve full coverage of urban wastewater treatment facilities by the end of 2020, with the treatment capacity reaching 66.3 billion cubic meters in 2020 and the wastewater treatment capacity increasing from 168.4 million cubic meters per day to 218.0 million cubic meters per day. In 2017, the Chinese government issued the Implementation Opinion on Promoting the Public-Private Partnership (PPP) Cooperation in the Field of Water Pollution Prevention and Control (《關於推進水污染防治領域政府和社會資本合作(PPP)的實施意見》), requiring the wastewater treatment projects in which the government participated to fully implement the Public-Private Partnership (PPP) model. The report of the 19th CPC National Congress convened in 2017 pointed out that building an ecological civilization is vital to sustain the Chinese nation's development, and we must realize that lucid waters and lush mountains are invaluable assets, and "building a beautiful China" is included into the goal of developing a great China for the first time. Under the multiple guidance by the investment and policies of the Chinese government, the comprehensive wastewater treatment will continue to benefit, and is gradually shifting to comprehensive management of water environment and improving utilization of reclaimed water, which will become the important sources of long-term development and favorable policies for the environmental protection industry. The macro-economic prospect in Yunnan Province poses a potential threat to the demand for wastewater treatment, because the development of the overall economy of Yunnan Province directly affects the level of business activities, which further affects the discharge of wastewater. The change of government policy and its implementation is also important to the prospect of the industry, and the supporting government policy is the main driving factor for the growth of wastewater treatment business in Yunnan Province.

2. Overview of Reclaimed Water Industry

Looking forward, capacity of reclaimed water is expected to grow at a compound annual growth rate 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 m^3 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 m^3 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 running water supply capacity is expected to keep growing at an annual rate of 1.3% in the five coming years, reaching 368.0 million m^3 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 national 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 industries will benefit from the rapidly accelerating urbanization in China and the Chinese governmental policies supporting the environmental protection industry. The Board expects that the level of development, scale and growth of the above 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

At present, the cause of ecological and environmental protection has entered a new historical period. The Chinese government has made the strategic deployment of speeding up the reform of ecological civilization system and building a beautiful China. The National Conference on Ecological Environment Protection has sounded the trumpet of pushing forward the construction of ecological civilization, solving the problems of ecological environment and taking tough steps to prevent and control pollution. Under the guidance of positive policies, the ecological and environmental protection industry is expected to become an increasingly important sector for economic development under the "new normal" in China.

The Company is a leading enterprise in the municipal wastewater treatment and reclaimed water supply service industry in Yunnan Province, PRC, the largest wastewater treatment enterprise in Yunnan Province, PRC, and one of the major enterprises to implement the strategic goal of pollution control in Dianchi Lake, enjoying exclusive rights to provide wastewater treatment services to Kunming and other regions of China. The franchise rights help the Company maintain and solidify its operational advantages and competitive position in the water services market in Yunnan Province, and lay a favorable foundation for us to integrate water resources outside Yunnan Province and expand the off-site market to achieve cross-regional operations.

By adhering to the strategic layout of “unitary domination with diversified development” and positioning as an integrated service provider providing systematic solutions for water environment management, we will actively integrate into the national ecological and environmental protection development strategy, seize the favorable policies and development opportunities in the environmental protection industry, constantly consolidate the wastewater treatment and related main businesses, maintain the leading position of the industry technologies and exert the advantages of gathering and financing, project and highland of talent resources in the capital market, accelerate the mutual promotion between business operations and capital operation and constant enhancement of its industrial competitiveness and business performance.

Taking advantage of the unique location advantages in Yunnan Province and investment opportunities brought by the “Belt and Road” Initiative, the Company will focus on developing relevant regions in China and selectively enter the South Asian and Southeast Asian market, gradually expand the global market and continuously enlarge our presence in environmental protection market. Meanwhile, in accordance with the relevant requirements for standardized operation of the listed companies and international corporate governance, we will continue to establish a sound management and control system adaptable to the international and domestic market environment, achieve prudent financial and operational management, prevent operational risks and continuously improve our business performance, so as to generate sustainable returns for our shareholders.

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 30 June 2018, our TOO projects contributed to 72.1% of our total revenue. Our TOT projects contributed to 6.9% of our total revenue and our BOT projects contributed to 6.1% of our total revenue. We also adopt the BOO and 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 30 June 2018, we had a total of 42 plants under concession agreements, of which 37 plants were in operation and 5 plants were under construction. Among such 37 plants in operation, 14 were TOO projects, 19 were TOT projects, 2 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilization rate of our facilities was above the industry average and the volume of wastewater treated maintained at a high level. For the six months ended 30 June 2018, the total volume of wastewater treated was 295.6 million m^3 with an average facility utilization rate of 90.4%.

Wastewater Treatment Projects

As of 30 June 2018, we had a total of 32 wastewater treatment plants in operation (including 14 in Kunming and 18 in other areas of China), with a total wastewater treatment capacity of 1.8 million m^3 per day. We also had 3 wastewater treatment plants under construction in Yunnan Province, PRC and in Laos. Additionally, our management services facilities have a total designed wastewater treatment capacity of 0.4 million m^3 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 30 June 2018, 92.5% of our designed wastewater treatment capacity reached the National Class I Category A standard.

Reclaimed Water Business

For our reclaimed water business, as of 30 June 2018, we had 7 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m^3. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming.

In recent years, with the construction of sponge cities in China, the construction of sponge cities has also commenced in Kunming City, Yunnan Province. Closely following the national policy and the demand of urban development, we actively entered into the rainwater resources utilization market on the basis of stepping up the expansion of the original reclaimed water business, and gradually formed a new development pattern of coordinated development of reclaimed water and rainwater resources.

We have achieved breakthrough from zero in the area outside the main city of Kunming in respect of our reclaimed water business, and have signed a cooperation agreement on reclaimed water access of the Languang Happy Valley (藍光歡樂谷) in the surrounding area of Luolong River in Chenggong, Kunming; We have carried out the promotion of the sponge city construction in the area where the waterlogging situation is more serious in Xishuang Banna, Yunnan Province, and have prepared to sign an agreement on the construction of reclaimed water station in Binjiang Junyuan, Xishuang Banna; We have also undertaken under entrustment the recycling operation business of wastewater water and reclaimed water in the water shortage areas such as Chuxiong area in Yunnan Province.

Running Water Business

For our running water business, as of 30 June 2018, we had 5 running water plants in operation in Yunnan Province, PRC and 2 running water plants under construction (including 1 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 "Belt and Road" Initiative.

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended 30 June 2017, our revenue amounted to RMB479.4 million, and increased by 16.2% to RMB556.9 million for the six months ended 30 June 2018; our gross profits for the six months ended 30 June 2017 were RMB210.1 million, and increased by 13.6% to RMB238.7 million for the six months ended 30 June 2018. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water, running water supply and management services respectively accounted for 85.3%, 4.0% and 10.7% of the total revenue.

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

	For the six months ended 30 June (Unaudited)	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**556,878**	479,359
Cost of sales	**(318,135)**	(269,282)
Gross profit	**238,743**	210,077
Selling expenses	**(6,583)**	(6,265)
Administrative expenses	**(52,247)**	(52,783)
Research and development expenses	**(2,871)**	(4,322)
Other income	**20,105**	44,493
Other losses – net	**(605)**	(8)
Operating profit	**196,542**	191,192
Finance income	**14,860**	18,542
Finance costs	**(52,962)**	(51,935)
Finance costs – net	**(38,102)**	(33,393)
Share of results of associates	**(79)**	479
Profit before income tax	**158,361**	158,278
Income tax expense	**(25,100)**	(25,499)
Profit for the period	**133,261**	132,779
Other comprehensive income/(loss) for the period	**1,383**	(516)
Total comprehensive income for the period	**134,644**	132,263

(a) Revenue

During the Reporting Period, our revenue amounted to approximately RMB556.9 million, an increase of 16.2% as compared to approximately RMB479.4 million for the same period last year, primarily because:

Our revenue from wastewater treatment business increased by RMB91.8 million or 24.0% from RMB383.2 million for the six months ended 30 June 2017 to RMB475.0 million for the six months ended 30 June 2018, primarily due to an increase in the revenue during the Reporting Period from wastewater treatment by RMB5.4 million after Liuyang Hongyu Water Co., Ltd. (瀏陽市宏宇水務有限公司) ("**Hongyu Water**") was consolidated into the Group since October 2017; due to an increase in BOT construction revenue by RMB10.6 million during the Reporting Period based on the percentage of completion method from Dianchi Water (Laos) Sole Proprietorship Co., Ltd. (滇池水務(老撾)獨資有限公司) ("**Dianchi Water (Laos)**"); due to an increase in the revenue from wastewater treatment by RMB14.0 million during the Reporting Period after Dongda Water was consolidated into the Group since January 2018; due to an increase in our construction revenue from BOT projects by RMB1.5 million during the Reporting Period after Debei'ao Water was consolidated into the Group since January 2018. The revenue of the water plants we operated increased by approximately RMB26.0 million during the Reporting Period due to the acquisition of Kunming No. 10 Water Purification Plant in January 2018 and the revenue of the remaining water plants increased by approximately RMB30.0 million with the increase in water treatment capacity.

Our revenue from other water service segments decreased by RMB27.4 million or 55.4% from RMB49.5 million for the six months ended 30 June 2017 to RMB22.1 million for the six months ended 30 June 2018, primarily due to decrease in the construction revenue from the demonstration project on reclaimed water supply and water quality improvement in Cui Lake by RMB20.5 million and a decrease in our construction revenue of Golden Triangle Special Economic Zone Waterworks Project in Laos (老撾金三角經濟特區自來水廠工程) by approximately RMB7.6 million based on the percentage of completion method.

Our revenue from other segments increased by RMB13.1 million or 28.1% from RMB46.7 million for the six months ended 30 June 2017 to RMB59.8 million for the six months ended 30 June 2018, primarily due to an increase in revenue by RMB13.4 million from BT projects of the newly-built Shipansi and Laoqingshan flood control and detention works during the Reporting Period, and an increase in revenue from the pipe network construction services by RMB1.6 million of Yunnan Zhongshui Engineering Co., Ltd. (雲南中水工程有限公司) during the Reporting Period. As we acquired the Kunming No. 10 Water Purification Plant from the controlling shareholder in January 2018 and started to operate it by ourselves, the custody service fee we charged for managing the wastewater treatment plant on behalf of the controlling shareholder decreased by RMB10.8 million.

(b) Cost of sales

During the Reporting Period, our cost of sales amounted to approximately RMB318.1 million, representing an increase of 18.1% as compared to approximately RMB269.3 million for the same period last year, primarily due to an increase in operation cost of the wastewater treatment segment during the Reporting Period, as follows:

Our cost of sales of the wastewater treatment segment increased by RMB68.1 million or 34.4% from RMB198.4 million for the six months ended 30 June 2017 to RMB266.5 million for the six months ended 30 June 2018, primarily due to an increase in the cost of the water plant we operated by RMB56.5 million with the increase in water treatment capacity and an increase in our construction cost from BOT projects by RMB10.6 million during the Reporting Period from Dianchi Water (Laos).

Our cost of sales from other water service segments decreased by RMB26.1 million or 55.6% from RMB47.0 million for the six months ended 30 June 2017 to RMB20.9 million for the six months ended 30 June 2018, primarily due to the decrease in construction cost of each project based on the percentage of completion method.

Our cost of sales from other segments increased by RMB6.8 million or 28.6% from RMB23.9 million for the six months ended 30 June 2017 to RMB30.7 million for the six months ended 30 June 2018, primarily due to an increase in construction cost by RMB13.4 million from BT projects of the newly-built Shipansi and Laoqingshan flood control and detention works during the Reporting Period and a decrease in related materials and labor costs by approximately RMB6.6 million as a result of reduction in both throughput and scope of the escrow services of Kunming Municipal Wastewater Treatment Operation Co., Ltd. (昆明城市污水處理運營有限責任公司).

(c) Gross Margin

During the Reporting Period, our gross margin was approximately 42.9%, representing a decrease of 0.9% as compared to 43.8% for the same period last year, primarily due to a decrease in the gross profit of wastewater treatment, which was partially offset by an increase in gross profit of both other water service segments and other segments.

Our gross profit of the wastewater treatment segment increased by RMB23.7 million or 12.8% from RMB184.8 million for the six months ended 30 June 2017 to RMB208.5 million for the six months ended 30 June 2018. Our wastewater treatment segment gross margin decreased from 48.2% for the six months ended 30 June 2017 to 43.9% for the six months ended 30 June 2018, primarily due to a relatively large proportion of cost in the revenue and lower gross margin in the construction phase of three projects, namely the newly signed Leshan Guanying/Niuhua BOT project, the BOT project of Yiliang Industrial Park Wastewater Treatment Plant and auxiliary works and the BOT project of Laos Golden Triangle Wastewater Treatment Plant.

Our gross profit from other water service segments decreased by RMB1.2 million or 51.3% from RMB2.4 million for the six months ended 30 June 2017 to RMB1.2 million for the six months ended 30 June 2018. Our other water service segment gross margin increased from 4.9% for the six months ended 30 June 2017 to 5.4% for the six months ended 30 June 2018, primarily due to an increase in the revenue from water supply, and a decrease in the proportion of construction revenue with lower gross profit.

Our gross profit from other segments increased by RMB6.3 million or 27.6% from RMB22.8 million for the six months ended 30 June 2017 to RMB29.1 million for the six months ended 30 June 2018. Our gross margin of other segments decreased from 48.8% for the six months ended 30 June 2017 to 48.6% for the six months ended 30 June 2018.

(d) Selling expenses

During the Reporting Period, our selling expenses amounted to approximately RMB6.6 million, an increase of 5.1% as compared to approximately RMB6.3 million for the same period last year, primarily due to slight increase in wages, office supplies and communication expenses for the current period.

(e) Administrative expenses

During the Reporting Period, our administrative expenses amounted to approximately RMB52.2 million, a decrease of 1.0% as compared to approximately RMB52.8 million for the same period last year, mainly due to the decrease of listing expenses of RMB13.3 million that was mitigated by the increase of the salary expenses in the first half of 2018 by RMB2.9 million over the same period of last year and consulting fee of RMB6.4 million related to acquisitions during the period.

(f) Research and development expenses

During the Reporting Period, our research and development expenses amounted to approximately RMB2.9 million, representing a decrease of 33.6% as compared to approximately RMB4.3 million for the same period last year, primarily due to the completion of major water projects for major R&D projects and the cost has been significantly reduced as compared to the same period last year.

(g) Other income

During the Reporting Period, our other income amounted to approximately RMB20.1 million, representing a decrease of 54.8% as compared to approximately RMB44.5 million for the same period last year, primarily due to the decrease of VAT refund as less VAT payable incurred due to input tax relating to acquisition of fixed assets.

(h) ***Other losses – net***

During the Reporting Period, our other losses – net amounted to approximately RMB0.6 million, an increase of RMB0.6 million as compared with approximately RMB0 million for the same period last year, mainly due to an increase of approximately RMB0.6 million in public welfare donations.

(i) ***Operating profit***

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to approximately RMB196.5 million, an increase of 2.8% as compared to approximately RMB191.2 million for the same period last year. Our operating margin during the Reporting Period was 35.3%.

(j) ***Finance income***

During the Reporting Period, our finance income amounted to approximately RMB14.9 million, a decrease of 19.9% as compared to approximately RMB18.5 million for the same period last year. The main reason is that the interest income of the current related party's loan decreased by RMB3.5 million.

(k) ***Finance costs***

During the Reporting Period, our finance expenses amounted to approximately RMB53.0 million, an increase of 2.1% as compared to approximately RMB51.9 million for the same period last year, primarily due to an increase in interest costs as a result of increase in borrowings during the period, and the exchange income of RMB2.0 million recorded in 2018 as compare with the exchange loss of RMB17.9 million in 2017. The weighted average effective interest rate of our borrowings for the Reporting Period was 5.3%.

(l) ***Profit before income tax***

During the Reporting Period, our profit before income tax amounted to approximately RMB158.4 million, as compared to approximately RMB158.3 million for the same period last year, which was in line with that of last year.

(m) ***Income tax***

During the Reporting Period, our net income tax expense amounted to approximately RMB25.1 million, a decrease of 1.6% as compared to RMB25.5 million for the same period last year. The effective tax rate was 15.8%, a decrease of 0.3 percentage point as compared with the same period last year, primarily because our effective tax rate was in line with that of last year, which was due to the fact that our tax beneficial treatments for some of our wastewater treatment facilities expired and the subsidiaries we acquired were not qualified for the preferential income tax rate of 15% under the "West Region Development Policy" and were required to pay full corporate income tax at the tax rate of 25%, therefore the effective tax rate was slightly higher than 15%.

(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 RMB134.6 million, increased by 1.8% as compared to RMB132.3 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 30 June (Unaudited)	
	2018	2017
	RMB'000	*RMB'000*
Net cash used in operating activities	**(173,967)**	(237,523)
Net cash used in investing activities	**(968,550)**	(41,782)
Net cash generated from financing activities	**1,301,427**	1,247,245
Net increase in cash and cash equivalents	**158,910**	967,940
Foreign exchange gain/(losses)	**1,980**	(18,427)
Cash and cash equivalents at beginning of the period	**1,291,170**	446,830
Cash and cash equivalents at end of the period	**1,452,060**	1,396,343

(a) Net cash used in operating activities

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 cash used in operating activities was RMB174.0 million, decreased by RMB63.5 million as compared to RMB237.5 million for the same period last year, which was primarily due to the increase in cash received from customers for the provision of services and products during the period compared to the same period in 2017.

(b) ***Net cash used in investing activities***

Our net cash used in investing activities has been primarily used to purchase property, plant and equipment, equity interests in subsidiaries and associates, to provide loans to related parties and to purchase structured deposit wealth management products.

Our net cash used in investing activities increased from RMB41.8 million for the six months ended 30 June 2017 to RMB968.6 million for the six months ended 30 June 2018, primarily due to payment for the acquisition of subsidiaries during the current period of approximately RMB131.3 million, the acquisition of Kunming No. 10 Water Purification Plant and other equipment spending cash of RMB118.8 million, the provision of entrusted loans to related parties of RMB600.0 million, and the net purchase of financial assets at fair value through profit or loss of RMB170.0 million.

(c) ***Net cash generated from financing activities***

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

Our net cash generated from financing activities was RMB1,247.2 million for the six months ended 30 June 2017 as compared to net cash generated from financing activities of RMB1,301.4 million for the six months ended 30 June 2018, primarily comprising loans of approximately RMB1,682.9 million and repaying borrowings and interest of approximately RMB380.3 million.

As of 30 June 2018, the net proceeds from the Global Offering of the Company' H shares amounted to RMB1,072.3 million, among which approximately RMB360.7 million (accounting for 33.63% of the net proceeds from the Global Offering) had been utilized in accordance with the use of proceeds as follows: RMB26.5 million was invested in BOT/BOO wastewater treatment and running water supply projects; a total of RMB115.8 million was used to pay for the acquisition of TOT/TOO wastewater treatment and running water supply projects, including payment for acquisition of the equity interests in Dongda Water; RMB207.6 million was used to repay the existing bank loans; and RMB10.8 million was used to replenish the working capital.

3. Working Capital

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

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**19,084**	13,747
Inventories	**8,188**	7,515
Amounts due from customers for construction contracts	**17,318**	12,296
Trade and other receivables	**1,187,889**	386,397
Financial assets measured at fair value through profit or loss	**250,000**	–
Available-for-sale financial assets	**–**	80,000
Cash and cash equivalents	**1,452,060**	1,291,170
Total current assets	**2,934,539**	1,791,125
Current liabilities		
Trade and other payables	**473,309**	369,850
Current income tax liabilities	**54,844**	60,238
Borrowings	**1,383,363**	599,570
Contract liabilities	**6,144**	–
Total current liabilities	**1,917,660**	1,029,658
Net current assets	**1,016,879**	761,467

Our net current assets increased from net current assets of RMB761.5 million as of 31 December 2017 to net current assets of RMB1,016.9 million for the six months ended 30 June 2018, primarily due to the net profit in the current period and the supplementary working capital with long-term borrowings.

(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 RMB19.1 million as at 30 June 2018, representing an increase of 38.8% from RMB13.7 million as at 31 December 2017, mainly due to increase in the amount to be recovered in the coming year as per the progress of contract collection.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB719.3 million as at 30 June 2018, representing an increase of 35.7% from RMB530.0 million as at 31 December 2017, mainly due to the new acquisition of Dongda Water and Debei'ao Water's BOT and TOT projects and the original projects in progress in the current period.

(b) Inventories

Our total inventory balance slightly increased from RMB7.5 million as of 31 December 2017 to RMB8.2 million as of 30 June 2018, which remained substantially the same as previous period.

For the six months ended 30 June 2018, our inventory turnover days were 4.6 days, an increase of 0.1 day as compared to the year ended 31 December 2017. The calculation for inventory turnover days was based on the average annual inventory divided by the sales cost recognized as the cost of sales during the relevant period and multiplied by 180 days. The inventory turnover days remained substantially the same.

(c) Amounts due from customers for construction contracts

As of 30 June 2018, our amounts due from customers for construction contracts were approximately RMB323.4 million, increased by RMB72.7 million as compared to RMB250.7 million as of 31 December 2017, primarily due to the new acquisition of the BT project of Debei'ao Water and the original projects in progress in the current period.

(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 sales of goods and 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 tariffs.

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

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Trade receivables:		
– Third parties	**14,790**	4,852
– Related parties	**72,519**	95,467
– Local government	**372,700**	146,232
Trade receivables – net	**460,009**	246,551
Notes receivable	**5,248**	–
Other receivables:		
– Third parties	**20,485**	5,176
– Related parties	**625,909**	68,857
– Local government	**4,487**	55,665
– Deductable VAT and prepaid tax	**49,762**	–
Other receivables – net	**700,643**	129,698
Prepayments:		
– Related parties	**444**	–
– others	**21,545**	10,148
Prepayments – net	**21,989**	10,148
Trade and other receivables – net	**1,187,889**	386,397

As of 30 June 2018, our net trade and other receivables was approximately RMB1,187.9 million, increased by RMB801.5 million or 207.4% as compared to approximately RMB386.4 million as of 31 December 2017, primarily due to (i) the provision of loans of RMB300.0 million to Kunming Bus and KIDC respectively (namely a total of RMB600.0 million) during the period; and (ii) increase of receivable from wastewater treatment due from the Kunming Finance Department of approximately RMB226.5 million during the period.

The ageing analysis of accounts receivable of the Group based on the date of receipt is as follows:

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
– Within one year	**442,508**	243,528
– Over one year and within two years	**17,501**	3,023
	460,009	246,551

Based on the past experience, the Directors of the Group 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 30 June 2018 *Days*	As at 31 December 2017 *Days*
Trade receivables turnover days (1)	**114.2**	55.6
Trade and other receivables turnover days (2)	**307.8**	103.4

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 30 June 2018 and the year ended 31 December 2017.

(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 30 June 2018 and the year ended 31 December 2017.

4. Trade and Other Payables

Our trade and other payables primarily consist of trade payables, staff salaries and welfare payables, advance from customers, payables on acquisition of property, plant and equipment, payables on acquisition of land use rights from related parties, dividend payables, 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 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade payables	**6,929**	3,802
Other payables	**76,104**	71,899
Consideration unpaid for acquisition of business	**1,529**	12,690
Staff salaries and welfare payables	**19,327**	28,667
Advance from customers	**–**	6,124
Payables on acquisition of property, plant and equipment	**107,207**	84,297
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**18,403**	2,021
Accrued taxes other than income tax	**28,471**	102,156
Dividend payables	**157,145**	–
	473,309	369,850

As of 30 June 2018, our trade and other payables amounted to approximately RMB473.3 million, representing an increase of RMB103.4 million or 28.0% as compared to approximately RMB369.9 million as of 31 December 2017. The increase was primarily due to: (i) the provision of dividend payables of RMB157.1 million as of 30 June 2018, which was approved by the shareholders at the 2017 annual general meeting held on 22 June 2018; (ii) the accrued taxes other than income tax decreased by RMB73.7 million from RMB102 million at the end of 2017 to RMB28.5 million as at 30 June 2018; (iii) the payables on acquisition of property, plant and equipment increased by approximately RMB22.9 million from RMB84.3 million at the end of 2017 to RMB107.2 million as at 30 June 2018; and (iv) an increase in interest payables of approximately RMB16.4 million, which was primarily due to the interest payable on bonds being settled at the end of each year.

The ageing analysis of accounts payables of the Group based on the date of receipt is as follows:

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
– Within one year	**6,244**	3,471
– Over one year and within two years	**685**	331
	6,929	3,802

As at 30 June 2018 and 31 December 2017, all trade and other payables of our Group were non-interest bearing, and their fair values 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 30 June 2018 *Days*	As at 31 December 2017 *Days*
Trade and other payables turnover days (1)	**234.7**	199.9
Trade payables turnover days (2)	**49.2**	37.4

Notes:

(1) Calculated as the average trade payables for the relevant period divided by the selling cost 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 payables is used for the six months ended 30 June 2018 and the year ended 31 December 2017.

(2) Calculated as the average trade and other payables for the relevant period divided by the expenditure for procurement 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 payables is used for the six months ended 30 June 2018 and the year ended 31 December 2017.

During the Reporting Period, our trade payables turnover days increased by 11.8 days as compared with the same period of last year, mainly due to increase in the balance of accounts payable.

Our directors confirm that up to 30 June 2018, 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, plants and equipment. The table below sets out our borrowings as of the dates indicated:

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Non-current:		
Unsecured long-term borrowings	**419,000**	397,000
Secured long-term borrowings	**508,801**	–
Corporate bonds	**695,080**	694,625
Total non-current borrowings	**1,622,881**	1,091,625
Current:		
Unsecured short-term borrowings	**1,288,000**	552,000
Secured short-term borrowings	**95,363**	47,570
Total current borrowings	**1,383,363**	599,570
Total borrowings	**3,006,244**	1,691,195

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

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Average effective interest rate	**5.26%**	4.58%

Our total debt amounted to approximately RMB3,006.2 million as of 30 June 2018, an increase of 77.8% from approximately RMB1,691.2 million as of 31 December 2017. As of 30 June 2018, approximately RMB604.2 million of our debt were secured by our property, plants and equipment, representing an increase of 1,170.1% as compared to approximately RMB47.6 million as of 31 December 2017. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on 25 December 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 30 June 2018, 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 30 June 2018, 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 30 June 2018, we had not received any requests for early repayment of the principal or interest 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 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
On demand or within 1 year	**1,383,362**	599,570
Between 1 and 2 years	**156,502**	317,000
Between 2 and 5 years	**1,370,053**	80,000
More than 5 years	**96,327**	694,625
	3,006,244	1,691,195

As of 30 June 2018, 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 26.2%, representing an increase of 18.2 percentage points from that as of 31 December 2017, primarily due to the increase in borrowings during the period.

Except as disclosed above, as of 30 June 2018, 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 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Property, plant and equipment	**51,127**	101,957
	51,127	101,957

(c) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB591.8 million for the six months ended 30 June 2018, representing an increase of 1,174.2% as compared to RMB43.1 million for the six months ended 30 June 2017. 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 30 June	
	2018	2017
	RMB'000	*RMB'000*
Wastewater treatment	**568,836**	41,084
Water supply	**22,509**	704
Others	**480**	1,278
	591,825	43,066

Based on our current business plan, we expect to incur capital expenditure amounting to RMB727.1 million for the year ending 31 December 2018. 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 30 June 2018, we had 957 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 30 June 2018:

Function	**Number**
Management and Administration	118
Finance	25
R&D	66
Quality Monitoring	136
Marketing	16
Operations	561
Construction and Maintenance	35
Total	957

We recruit our employees on the open market. The compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. Our employee benefits and labor expenses from January to June in 2017 amounted to RMB48.4 million, and our employee benefits and labor expenses from January to June in 2018 amounted to RMB59.7 million, representing an increase of approximately RMB11.3 million or 23.3% as compared to the same period of 2017, primarily due to business expansion of the Group.

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 Occupation 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 30 June 2018, the Group did not have any material contingent liability.

8. Major Investment and Acquisition

On 20 September 2017, the Company, Zou Han Ping (鄒 漢 平), Sichuan Weilai Luzhou Municipal Public Engineering Co., LTD., Sichuan Debei'ao Environmental Protection Technology Industrial Co., Ltd. and Debei'ao Water entered into the Share Transfer Agreement, pursuant to which the Company conditionally agreed to acquire 100% equity interest in Debei'ao Water at the consideration of RMB80,230,000. Such acquisition has been completed in January 2018. Upon completion of the acquisition, the Company has provided Debei'ao Water with a shareholder loan of RMB56,545,300 to settle the relevant liabilities of Debei'ao Water. Debei'ao Water has become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities shall be consolidated into the Group.

On 19 December 2017, the Company, Dongda Water Industry Group Co., Ltd. (東大水業集團有限公司), Zhuji City Urban Public Transport Co., Ltd. (諸暨市長運城鄉公交有限公司) and Dongda Water entered into the Share Transfer Agreement, pursuant to which the Company conditionally agreed to acquire 100% equity interest in Dongda Water at the consideration of RMB85,326,000, and the final consideration for such acquisition was RMB83,443,000. Such acquisition has been completed in January 2018. Dongda Water has become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities shall be consolidated into the Group.

As disclosed by the Company in the Prospectus and annual report of 2017, on 13 April 2015, we entered into an asset transfer agreement (as supplemented and amended by the First Supplementary Agreement executed on 30 December 2015, the Second Supplementary Agreement executed on 27 July 2016, and the Third Supplementary Agreement executed on 28 December 2017) with the controlling shareholder Kunming Dianchi Investment Co., Ltd., pursuant to which the Company conditionally agreed to acquire the wastewater treatment facilities of Kunming No. 10 Water Purification Plant (the "**Target Assets**"). The consideration for the transfer of the Target Assets is initially estimated to be RMB750.17 million, subject to a final determination on the basis of the appraised value of the Target Assets as at the last day of the month when the Target Assets receive confirmation of construction completion, pass inspection and receive acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC. As evaluated by a qualified valuer (with 30 June 2017 as the benchmark date) and after filing with Kunming SASAC on 27 December 2017, the consideration for the acquisition was determined to be approximately RMB572,323,000. Such acquisition has been completed in January 2018.

Save for 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 30 June 2018, the Group is not involved in any material or potential litigation.

10. Exchange Rate Volatility Risk and Any Related Hedging

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("**HKD**").

Foreign exchange risk arises from cash and cash equivalents denominated in HKD. The Group does not hedge against any fluctuation in foreign currency during the Reporting Period.

At 30 June 2018, 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 RMB2,498,000 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 into RMB.

11. Loans to Certain Entities

The Company signed an entrustment loan contract with KIDC and the Bank of Communications Co., Ltd. Yunnan Branch ("**Bank of Communications**") on 16 March 2018, pursuant to which the Company commissioned the Bank of Communications to provide an entrusted loan of RMB300,000,000.0 to KIDC, with an annual interest rate of 7%. As one or more of percentage ratios applicable to the transaction are more than 5% but less than 25%, it constitutes a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). For details, please refer to the announcement of the Company on 16 March 2018.

The Company signed an entrustment loan contract with Kunming Bus and the Bank of Communications on 3 April 2018, pursuant to which the Company commissioned the Bank of Communications to provide an entrusted loan of RMB300,000,000.0 to Kunming Bus, with an annual interest rate of 8.5%. As one or more of percentage ratios applicable to the transaction are more than 5% but less than 25%, it constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. For details, please refer to the announcement of the Company on 3 April 2018.

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 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 during the Reporting Period, 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, during the Reporting Period, 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 AND SUPERVISORS

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, during the Reporting Period, the Directors and Supervisors of the Company confirmed that they had strictly complied with the required standards as set out in the Model Code.

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 30 June 2018.

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 30 June 2018 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 30 June 2018 (six months ended 30 June 2017: nil).

VIII. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended 30 June 2018 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, 17 August 2018

As at the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Ms. Ma Ce 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.