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)

2019 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2019, the Group's:

- revenue amounted to approximately RMB712.0 million, representing an increase of 27.9% from the corresponding period of last year;
- profit before tax amounted to approximately RMB182.9 million, representing an increase of 15.5% from the corresponding period of last year;
- net profit attributable to the equity holders of the Company amounted to approximately RMB149.5 million, representing an increase of 12.6% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.15, representing an increase of 15.4% 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**", "**we**", "**us**" or "**our**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2018, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Unaudited Six months ended 30 June	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*6*	**711,998**	556,878
Cost of sales	*23*	**(431,510)**	(318,135)
Gross profit		**280,488**	238,743
Selling expenses	*23*	**(5,542)**	(6,583)
Administrative expenses	*23*	**(42,138)**	(52,247)
Research and development expenses	*23*	**(45)**	(2,871)
Net impairment losses on financial and contract assets		**(6,212)**	–
Other income	*21*	**23,338**	20,105
Other losses – net	*22*	**(82)**	(605)
Operating profit		**249,807**	196,542
Finance income	*24*	**28,526**	14,860
Finance costs	*24*	**(95,438)**	(52,962)
Finance costs – net	*24*	**(66,912)**	(38,102)
Share of results of associates		**(5)**	(79)
Profit before income tax		**182,890**	158,361
Income tax expense	*25*	**(32,623)**	(25,100)
Profit for the period		**150,267**	133,261
Profit attributable to:			
– The equity holders of the Company		**149,452**	132,739
– Non-controlling interests		**815**	522
		150,267	133,261

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Unaudited Six months ended 30 June	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**89**	1,383
Total comprehensive income		**150,356**	134,644
Total comprehensive income attributable to:			
– The equity holders of the Company		**149,541**	134,122
– Non-controlling interests		**815**	522
		150,356	134,644
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted earnings per share	*26*	**0.15**	0.13

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
ASSETS			
Non-current assets			
Land use rights	*7*	**–**	469,125
Right-of-use assets	*7*	**464,197**	–
Property, plant and equipment	*8*	**3,029,773**	3,053,604
Receivables under service concession arrangements	*9*	**1,179,715**	1,120,398
Amounts due from customers for construction contracts	*14*	**338,175**	291,687
Intangible assets	*10*	**181,093**	184,558
Investments in associates	*11*	**15,069**	15,074
Deferred income tax assets	*12*	**49,550**	50,196
		5,257,572	5,184,642
Current assets			
Receivables under service concession arrangements	*9*	**14,504**	15,408
Inventories		**17,481**	12,921
Amounts due from customers for construction contracts	*14*	**18,097**	18,911
Financial assets at fair value through profit or loss	*5*	**–**	170,000
Trade and other receivables	*13*	**2,037,206**	942,551
Cash and cash equivalents	*15*	**1,937,633**	1,079,714
Restricted assets		**17,916**	17,916
		4,042,837	2,257,421
Total assets		**9,300,409**	7,442,063

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited 30 June 2019** *RMB'000*	Audited 31 December 2018 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred revenue	*19*	**241,095**	222,530
Borrowings	*18*	**3,292,187**	1,764,699
Deferred income tax liabilities	*12*	**63,572**	63,374
		3,596,854	2,050,603
Current liabilities			
Trade and other payables	*20*	**635,850**	379,708
Current income tax liabilities		**71,329**	84,589
Borrowings	*18*	**1,106,439**	1,014,505
Contract liabilities		**16,110**	11,737
Total liabilities		**1,829,728**	1,490,539
Net assets		**5,426,582**	3,541,142
EQUITY		**3,873,827**	3,900,921
Share capital	*16*	**1,029,111**	1,029,111
Other reserves	*17*	**1,452,373**	1,452,284
Retained earnings		**1,386,440**	1,413,378
Capital and reserve attributable to equity holders of the Company		**3,867,924**	3,894,773
Non-controlling interests		**5,903**	6,148
Total equity		**3,873,827**	3,900,921

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

		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 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		–	–	(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
As at 1 January 2019		**1,029,111**	**1,452,284**	**1,413,378**	**3,894,773**	**6,148**	**3,900,921**
Comprehensive income:							
Profit for the period		**–**	**–**	**149,452**	**149,452**	**815**	**150,267**
Currency translation difference		**–**	**89**	**–**	**89**	**–**	**89**
Transactions with owners:							
Dividend declared	*27*	**–**	**–**	**(176,390)**	**(176,390)**	**(1,060)**	**(177,450)**
As at 30 June 2019		**1,029,111**	**1,452,373**	**1,386,440**	**3,867,924**	**5,903**	**3,873,827**

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

		Unaudited	
		Six months ended 30 June	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated/(used) in operations	*28*	**273,346**	(112,090)
Interest paid		**(58,640)**	(26,036)
Income tax paid		**(44,782)**	(35,841)
Net cash generated/(used) in operating activities		**169,924**	(173,967)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(131,308)
Purchase of property, plant and equipment		**(119,041)**	(118,777)
Purchase of intangible assets		**(1,660)**	(138)
Funds granted to related parties	*30(b)(ii)*	**(1,000,000)**	(600,000)
Interest received		**28,526**	10,053
Government grants received relating to purchase of property, plant and equipment		**30,000**	41,620
Investments in financial assets at fair value through profit or loss		**–**	(250,000)
Proceeds from disposals of investments in financial assets at fair value through profit or loss		**170,000**	80,000
Net cash used in investing activities		**(892,175)**	(968,550)
Cash flows from financing activities		**–**	–
Proceeds from borrowings		**2,831,447**	1,682,894
Dividends declared and paid to non-controlling interests in subsidiaries		**–**	(1,143)
Repayments of borrowings		**(1,233,289)**	(380,324)
Net cash generated from financing activities		**1,598,158**	1,301,427
Net increase in cash and cash equivalents		**875,907**	158,910
Cash and cash equivalents at beginning of the period		**1,079,714**	1,291,170
Exchange gains		**(17,988)**	1,980
Cash and cash equivalents at end of the period		**1,937,633**	1,452,060

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 People's Republic of China (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 Group is 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 35 were approved for issue by the Board on 16 August 2019.

This condensed consolidated interim financial information has not been audited.

Significant changes in the current reporting period

For a detailed discussion about the Group's performance and financial position please refer to "II. Management discussion and analysis" as set out on page 36 to 60 of this announcement.

2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting.

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018. They have been prepared on the historical cost basis, except for financial assets and liabilities at fair value through profit or loss, which are measured at fair value. The accounting policies used in preparing these unaudited condensed consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new/revised International Financial Reporting Standards ("**IFRSs**") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 January 2019 as described below.

Annual Improvements to IFRSs	2015-2017 Cycle
IFRS 16	Leases
International (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Employee benefits
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation

2.1 New and amended standards adopted by the group

During the Reporting Period, the Group adopted IFRS 16 leases for the first time and adjusted accordingly.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3 below.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

3.1 IFRS 16: Leases

IFRS 16 significantly changes the lessee accounting by replacing the dual model under IAS 17 with a single model which requires a lessee to recognize assets and liabilities for the rights and obligations created by leases unless the exemptions apply. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest are recognized on the right-of-use assets and the lease liabilities respectively. Besides, it requires enhanced disclosures to be provided by lessees and lessors.

The Group has elected to apply the cumulative effect transition method and recognized the cumulative effect of initial adoption as an adjustment to the opening balance of components of equity at 1 January 2019 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of IFRS 16.

The Group has adopted IFRS 16 since 1 January 2019, resulting in changes in accounting policies.

Accounting policies

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

The Group leases various construction sites to operate wastewater treatment plants. Rental contracts are typically made for fixed periods of 15 to 30 years (generally based on the duration of the operating contract). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Applicable before 1 January 2019

Before the adoption of IFRS 16, leases which did not transfer substantially all the risks and rewards of ownership to the lessee were classified as operating leases. Rental payable under operating leases (net of any incentives received from the lessor) was charged to profit or loss on a straight-line basis over the period of the lease commitments under operating leases for future periods were not recognized by the Group as liabilities.

Applicable from 1 January 2019

When adopting IFRS 16, in accordance with the IAS 17, the leases classified as operating leases are recognized as right-of-use assets and corresponding lease liabilities at the date when the Group's available-for-lease assets are available for use. Each lease payment is allocated between the lease liabilities and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are amortized over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate, being the rate that the lease would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar term and condition.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

On the first adoption of IFRS 16, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term when the contract contains option to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made by applying IAS 17 and IFRIC-Int 4 in determining whether an Arrangement contains a Lease.

Impact of adoption of IFRS 16

The Group's recognition exemption for low value assets' leases is applied on a case-by-item basis. On 30 June 2019, the Group recognized that all leases are all low value assets' leases. Therefore, the Group did not calculate lease assets and lease liabilities for these leases on the transition date.

The following table summarizes the impact of transition to IFRS 16 on the consolidated statement of financial position of the Group as at 1 January 2019:

	Classification and carrying amount under IAS 17	**Reclassification on adoption of IFRS 16**	**Classification and carrying amount under IFRS 16**
	RMB'000	*RMB'000*	*RMB'000*
Assets:			
Land use rights	469,125	(469,125)	–
Right-of-use assets	–	469,125	469,125

Based on the foregoing, as at 1 January 2019:

- Prepaid lease payments in respect of the land use rights in the PRC was reclassified as right-of-use assets under IFRS 16.

The reconciliation of operating lease commitment to lease liabilities is set out below:

	RMB'000
Operating lease commitments as at 31 December 2018	6,290
Leases of short-term and low value assets as at 1 January 2019	(6,290)
Gross lease liabilities as at 1 January 2019	–

The movements of right-of-use assets within IFRS 16 during the six months ended 30 June 2019 are set out below:

	Right-of-use assets *RMB'000*
As at 1 January 2019	469,125
Depreciation expense of right-of-use assets	(4,928)
As at 30 June 2019	464,197

The operating lease expenses on leases of low-value assets recognized in profit or loss during the six months ended 30 June 2019 amounted to approximately RMB152,000.

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 2018 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 does 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 2018 of the Group.

There have been no changes in the risk management policies since last 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**") and US dollars ("**USD**"). Foreign exchange risk arises cash and cash equivalents denominated in HKD and USD. The Group does not hedge against any fluctuation in foreign currency.

At 30 June 2019, if RMB had weakened/strengthened by 1% against HKD and USD with all other variables held constant, revenue for the six months ended 30 June 2019 would have been approximately RMB14,786,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD and USD denominated funds raised through the listing of the Company's H shares and conversion of bank borrowings into RMB.

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 2019, the ageing analysis of trade receivables is set out in Note 13. Although the revenue is highly concentrated in the two single customers (Note 6 (d)), in the opinion of the directors of the Company, the risk of recovering long-aged receivables is lower because customers are mainly local government departments and their credit risk status has not changed significantly. In addition, on 30 June 2019, the management considered that the time value of long-aged receivables was not significant and did not have any significant long-aged receivables.

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 2019 (Unaudited)					
Borrowings	**1,165,238**	**1,206,093**	**1,977,508**	**246,554**	**4,595,393**
Financial liabilities included in trade and other payables	**414,952**	**–**	**–**	**–**	**414,952**
	1,580,190	**1,206,093**	**1,977,508**	**246,554**	**5,010,345**

	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 2018 (Audited)					
Borrowings	1,121,922	648,563	1,268,769	61,638	3,100,892
Financial liabilities included in trade and other payables	289,497	–	–	–	289,497
	1,411,419	648,563	1,268,769	61,638	3,390,389

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 31 December 2018 on a recurring basis:

At 31 December 2018 (Audited)	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial assets				
Financial assets at fair value through profit or loss (FVPL)	170,000	–	–	170,000

As of 30 June 2019, the Group did not have financial assets and liabilities that were subsequently measured at fair value.

(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 2019 and 2018 are set out as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Wastewater treatment	**487,914**	474,987
Operating services – under TOO model	**416,284**	393,797
Operating services – under TOT/BOT model	**30,389**	29,860
Construction services – under BT model	**12,479**	12,629
Construction services – under BOT model	**22,494**	26,593
Finance income	**6,268**	12,108
Reclaimed water supply and running water supply	**99,434**	22,072
Operating services – under TOO model	**16,560**	7,818
Operating services – under TOT/BOT model	**6,016**	6,084
Construction services – under BT model	**36,773**	–
Construction services – under BOT model	**40,085**	7,261
Finance income	**–**	909
Others	**124,650**	59,819
Management services	**42,674**	36,475
Transportation services	**2,099**	1,871
Thermoelectricity services	**59,361**	–
Others	**20,516**	21,473
	711,998	556,878

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2019 is as follows:

	For the six months ended 30 June 2019 (Unaudited)			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	487,914	99,434	124,650	711,998
Segment gross profit	235,509	2,542	42,437	280,488
Segment profit	207,414	(2,278)	44,671	249,807
Finance income				28,526
Finance costs				(95,438)
Share of results of associates				(5)
Profit before income tax				182,890
Other information				
Depreciation of property, plant and equipment	97,144	1,044	8,530	106,718
Depreciation expense of right-of-use assets	4,689	–	239	4,928
Amortization of intangible assets	5,125	–	–	5,125
Capital expenditure	82,847	–	1,700	84,547

	As at 30 June 2019 (Unaudited)			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	6,977,271	1,171,583	1,086,936	9,235,790
Unallocated:				
Deferred income tax assets				49,550
Investments in associates				15,069
Total assets				9,300,409
Segment liabilities	2,457,521	372,155	2,462,005	5,291,681
Unallocated:				
Deferred income tax liabilities				63,572
Current income tax liabilities				71,329
Total liabilities				5,426,582

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
Amortization of land use rights	4,624	–	–	4,624
Amortization of intangible assets	4,297	–	–	4,297
Capital expenditure	568,836	22,509	480	591,825

	As at 31 December 2018 (Audited)			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	6,246,112	361,018	769,663	7,376,793
Unallocated:				
Deferred income tax assets				50,196
Investments in associates				15,074
Total assets				7,442,063
Segment liabilities	2,889,297	132,348	371,534	3,393,179
Unallocated:				
Deferred income tax liabilities				63,374
Current income tax liabilities				84,589
Total liabilities				3,541,142

(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	
	2019	2018
	RMB'000	*RMB'000*
Customer A	**276,050**	261,139
Customer B	**105,782**	103,030
	381,832	364,169

The customer portfolio of the Group is concentrated, which is consistent with the industry practice. 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 LAND USE RIGHTS/RIGHT-OF-USE ASSETS

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Opening net book value	**469,125**	445,974
Depreciation expenses/Amortization charges *(Note 23)*	**(4,928)**	(4,624)
Closing net book value	**464,197**	441,350

8 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 2019						
Opening net book value	**1,754,737**	**632,622**	**48,048**	**15,108**	**603,089**	**3,053,604**
Additions *(a)*	**3,668**	**2,584**	**638**	**46**	**75,951**	**82,887**
Depreciation *(Note 23)*	**(50,601)**	**(51,497)**	**(3,124)**	**(1,496)**	**–**	**(106,718)**
Closing net book value	**1,707,804**	**583,709**	**45,562**	**13,658**	**679,040**	**3,029,773**

	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	270,934	237,483	1,930	262	81,078	591,687
Transfer	–	281	51	–	(332)	–
Acquisition of subsidiaries	–	–	174	565	–	739
Depreciation *(Note 23)*	(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

(a) For the six months ended 30 June 2019, additions were RMB82.9 million and the depreciation was RMB106.7 million.

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
Buildings and facilities	**353,600**	415,428
Machinery and equipment	**–**	19,942
	353,600	435,370

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	**14,578**	15,485
Loss allowance	**(74)**	(77)
	14,504	15,408
Non-current portion:		
Receivables under service concession arrangements	**1,183,331**	1,126,028
Loss allowance	**(3,616)**	(5,630)
	1,179,715	1,120,398
	1,194,219	1,135,806

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

10 INTANGIBLE ASSETS

	Computer software ***RMB'000***	**Operating concession** ***RMB'000***	**Other intangible assets** ***RMB'000***	**Total** ***RMB'000***
(Unaudited)				
Six months ended 30 June 2019				
Opening net book value as at 1 January 2019	**11,264**	**163,336**	**9,958**	**184,558**
Additions	**–**	**–**	**1,660**	**1,660**
Amortization *(Note 23)*	**(1,960)**	**(3,165)**	**–**	**(5,125)**
Closing net book amount as at 30 June 2019	**9,304**	**160,171**	**11,618**	**181,093**

	Computer software *RMB'000*	Operating concession *RMB'000*	Other intangible assets *RMB'000*	Total *RMB'000*
(Unaudited)				
Six months ended 30 June 2018				
Opening net book value as at 1 January 2018	14,359	110,898	9,842	135,099
Additions	122	–	16	138
Acquisition of subsidiaries	–	57,671	–	57,671
Amortization *(Note 23)*	(2,159)	(2,138)	–	(4,297)
Closing net book value as at 30 June 2018	12,322	166,431	9,858	188,611

11 INVESTMENTS IN ASSOCIATES

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

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Beginning of the period	**15,074**	15,257
Share of associates' results	**(5)**	(79)
End of the period	**15,069**	15,178

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 2019/ for the six months ended 30 June 2019 (unaudited)	**7,692**	**1,909**	**858**	**(5)**	**5,783**

No individual associate is considered as material to the Group.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	**18,943**	5,328
– to be recovered after more than 12 months	**30,607**	44,868
	49,550	50,196
Deferred income tax liabilities:		
– to be recovered within 12 months	**–**	1,027
– to be recovered after more than 12 months	**63,572**	62,347
	63,572	63,374

Movements in deferred income tax assets and liabilities during the six months ended 30 June 2019 and 2018, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

	Unaudited Six months ended 30 June	
Deferred income tax assets	**2019**	2018
	RMB'000	*RMB'000*
At the beginning of the period	**50,861**	33,160
Recognized in the consolidated statement of comprehensive income *(Note 25)*	**8,891**	6,501
At the end of the period	**59,752**	39,661

Deferred income tax assets as at 30 June 2019 and 2018 were mainly related to government grant, tax losses carried forward, unrealized foreign exchange losses as well as depreciation and amortization 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.

	Unaudited Six months ended 30 June	
Deferred income tax liabilities	**2019**	2018
	RMB'000	*RMB'000*
At the beginning of the period	**64,040**	40,051
Acquisition of subsidiaries	**–**	14,418
Recognized in the consolidated statement of comprehensive income *(Note 25)*	**9,734**	1,154
At the end of the period	**73,774**	55,623

Deferred income tax liabilities were mainly related to fair value adjustment arising from acquisition of subsidiaries in previous years, differences arising from service concession receivables and differences arising from construction contracts as at 30 June 2019 and 2018.

13 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	**56,463**	50,824
– Related parties *(Note 30)*	**134,660**	117,780
– Local government	**520,622**	434,418
– Loss allowance	**(12,685)**	(9,654)
Trade receivables – net	**699,060**	593,368
Notes receivables:	**14,770**	–
Other receivables:		
– Third parties	**59,231**	28,481
– Related parties *(Note 30)*	**1,003,003**	24,780
– Local government	**37,346**	125,367
– Deductible VAT and prepaid tax	**27,151**	–
– Loss allowance	**(6,922)**	(640)
Other receivables – net	**1,119,809**	177,988
Prepayments:		
– Related parties *(Note 30)*	**–**	60
– Local government	**–**	3,304
– Others	**203,567**	167,831
Prepayments – net	**203,567**	171,195
Trade and other receivables – net	**2,037,206**	942,551

The fair values 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.

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
– Within one year	**506,524**	576,932
– Over one year and within two years	**190,295**	23,067
– Over two years	**14,926**	3,023
	711,745	603,022

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

14 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognized profits less recognized losses:

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Costs incurred to date plus recognized profits less recognized losses		
Current portion:		
Amounts due from customers for construction contracts	**18,106**	19,006
Loss allowance	**(9)**	(95)
	18,097	18,911
Non-current portion:		
Amounts due from customers for construction contracts	**338,612**	293,153
Loss allowance	**(437)**	(1,466)
	338,175	291,687
	356,272	310,598

15 CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Cash at bank	**1,937,633**	1,079,714

(a) Cash and cash equivalents are denominated in:

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
RMB	**459,028**	769,367
HKD	**785,954**	302,348
USD	**692,651**	7,999
	1,937,633	1,079,714

(b) All deposits 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 1.35% during the six months ended 30 June 2019 (31 December 2018: 0.30% to 1.35%).

16 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares *(thousands)*	Share capital *RMB'000*
(Unaudited)		
At 1 January 2019 and 30 June 2019	**1,029,111**	**1,029,111**
At 1 January 2018 and 30 June 2018	1,029,111	1,029,111

17 OTHER RESERVES

	Share premium *RMB'000*	Statutory reserve *RMB'000*	Capital reserve *RMB'000*	Translation reserve *RMB'000*	Total *RMB'000*
At 1 January 2019	**1,283,440**	**215,202**	**(47,793)**	**1,435**	**1,452,284**
Currency translation differences	**–**	**–**	**–**	**89**	**89**
At 30 June 2019 (unaudited)	**1,283,440**	**215,202**	**(47,793)**	**1,524**	**1,452,373**
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

18 BORROWINGS

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Non-current:		
Unsecured long-term borrowings	**150,000**	588,000
Secured long-term borrowings *(Note (b))*	**2,433,060**	480,635
Corporate bonds *(Note (d))*	**709,127**	696,064
Total non-current borrowings	**3,292,187**	1,764,699
Current:		
Unsecured short-term borrowings	**1,015,000**	917,000
Secured short-term borrowings *(Note (b))*	**91,439**	97,505
Total current borrowings	**1,106,439**	1,014,505
Total borrowings	**4,398,626**	2,779,204

(a) All the borrowings were denominated in RMB, USD and HKD.

(b) As at 30 June 2019 and 31 December 2018, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Secured by:		
Property, plant and equipment	**549,233**	578,140

(c) On 20 March 2019, the Company assumed unlimited joint and several liability for the borrowing of the subsidiary, Dianchi International Holdings Limited (滇池國際控股有限公司) and The Bank of New York Mellon, Hong Kong Branch. The total amount of guarantees for the credit amount of batch A shall not exceed US$170,000,000 (equivalent to approximately RMB1,142,709,000 after deducting underwriting fee). The total amount of credit amount of batch B shall not exceed HK$1,015,000,000 (equivalent to approximately RMB873,737,000 after deducting underwriting fee). As of 30 June 2019, all withdrawals have been made.

(d) 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 do not accept the adjusted interest rate.

(e) 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 2019 (Unaudited)	**47,260**	**1,059,180**	**3,292,186**	**4,398,626**
As at 31 December 2018 (Audited)	1,461,175	160,000	1,158,029	2,779,204

(f) The maturity of borrowings is as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
On demand or within 1 year	**1,106,440**	1,014,505
Between 1 and 2 years	**150,000**	584,810
Between 2 and 5 years	**2,725,573**	1,138,656
Later than 5 years	**416,613**	41,233
	4,398,626	2,779,204

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

	Unaudited 30 June 2019	Audited 31 December 2018
Borrowings	**4.43%**	5.25%

(h) 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.

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
RMB facilities	**1,147,000**	900,000

19 DEFERRED REVENUE

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
Government grants related to:		
– property plant and equipment	**240,423**	221,345
– research and development activities	**672**	1,185
	241,095	222,530

The movement of government grants during the six months ended 30 June 2019 and 2018 is set out as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Opening net book value	**222,530**	157,479
Additions	**30,000**	41,620
Amortization *(Note 21)*	**(4,466)**	(2,016)
Others	**(6,969)**	–
Closing net book value	**241,095**	197,083

20 DEFERRED REVENUE

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade payables	**33,898**	31,006
Other payables due to:	**132,154**	106,923
– related parties *(Note 30)*	**18,315**	21,918
– local government	**702**	3,790
– third parties	**113,137**	81,215
Consideration payable for acquisition of subsidiaries	**23,619**	23,619
Staff salaries and welfare payables	**24,508**	46,091
Collection and payment of payables	**136,470**	–
Payables on acquisition of property, plant and equipment:	**30,257**	69,755
– related parties *(Note 30)*	**16,040**	17,212
– third parties	**14,217**	52,543
Payables on acquisition of land use rights from related parties *(Note 30)*	**58,194**	58,194
Dividend payables *(Note 27)*	**177,450**	–
Interest payables	**1,716**	2,982
Accrued taxes other than income tax	**17,584**	41,138
	635,850	379,708

(a) All trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances 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 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
– Within one year	**12,912**	16,682
– Over one year and within two years	**20,986**	14,324
	33,898	31,006

21 OTHER INCOME

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Government grants:	**14,346**	10,289
– relating to property, plant and equipment *(Note 19)*	**4,446**	1,996
– relating to research and development activities *(Note 19)*	**20**	20
– relating to tax refund *(Note (a))*	**9,880**	8,273
Interest income from cash and cash equivalents	**4,206**	2,494
Gain on financial assets at fair value through profit or loss	**–**	724
Others	**4,786**	6,598
	23,338	20,105

(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 utilized 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.

22 OTHER LOSSES – NET

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Donation expenses	**(17)**	(572)
Others	**(65)**	(33)
	(82)	(605)

23 EXPENSES BY NATURE

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Depreciation of properties, plant and equipment *(Note 8)*	**106,718**	104,026
Cost of construction services	**108,481**	59,878
Employee benefit expenses	**60,210**	59,682
Utilities and electricity	**59,349**	55,904
Fuel and power fee	**33,575**	–
Costs of wastewater treatment and water supply services	**39,413**	27,412
Taxes and levies	**13,914**	14,638
Professional expenses	**8,184**	12,353
Labour costs	**10,668**	11,597
Repair and maintenance costs	**10,700**	8,462
Depreciation expense of right-of-use assets/Amortization of land use rights *(Note 7)*	**4,928**	4,624
Transportation costs	**5,771**	4,481
Amortization of intangible assets *(Note 10)*	**5,125**	4,297
Commission charge *(Note 30)*	**3,786**	4,071
Office expenditures	**4,733**	3,515
Materials used in research and development activities	**45**	2,552
Auditor's remuneration	**1,033**	1,745
Miscellaneous	**2,602**	599
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**479,235**	379,836

24 FINANCE COSTS – NET

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Finance income:		
– Interest income from time deposits	**693**	–
– Interest income charged to related parties *(Note 30)*	**22,459**	11,182
– Interest income arising from construction contracts	**5,374**	3,678
	28,526	14,860
Finance costs:		
– Interest expenses on borrowings	**(84,980)**	(57,995)
– Less: borrowing costs capitalized in property, plant and equipment	**7,999**	3,098
– Interest expenses – net	**(76,981)**	(54,897)
– Exchange (losses)/gains	**(17,988)**	1,980
– Others	**(469)**	(45)
	(95,438)	(52,962)
Finance costs – net	**(66,912)**	(38,102)

25 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of comprehensive income represents:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**31,780**	30,447
Deferred income tax *(Note 12)*	**843**	(5,347)
Income tax expense	**32,623**	25,100

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 enterprises is 25% from 1 January 2008. The income tax rate of 25% is applicable to all the Group's PRC subsidiaries during the six months ended 30 June 2019 and 2018, 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 the western provinces of China. During the six months ended 30 June 2019 and 2018, 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 utilization of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.

(d) The Group estimated that the forecasted effective tax rate for the year ending 31 December 2019 is 16.9% and the effective tax rate for the year ended 31 December 2018 was 15.8%.

26 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	
	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**149,452**	132,739
Weighted average number of ordinary shares in issue *(thousand)*	**1,029,111**	1,029,111
Basic earnings per share *(RMB)*	**0.15**	0.13

(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 2019 and 2018.

27 DIVIDENDS

As approved by the shareholders' meeting held on 21 June 2019, the Company determined to pay a cash dividend for the year ended 31 December 2018 of RMB0.1714 (tax inclusive) for every ordinary share amounting to approximately RMB176,389,625 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 2018 but have been reflected as dividends distribution for the six months ended 30 June 2019. The 2018 dividends had been distributed to the Shareholder on 8 August 2019.

28 CASH GENERATED/(USED) IN OPERATING ACTIVITIES

Reconciliation of profit before income tax to net cash generated/(used) in operations

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period before income tax	**182,890**	158,361
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 23)*	**106,718**	104,026
– Depreciation expense of right-of-use assets/Amortization of land use rights *(Note 23)*	**4,928**	4,624
– Amortization of intangible assets *(Note 23)*	**5,125**	4,297
– Government grants relating to purchase of property, plant and equipment *(Note 21)*	**(4,446)**	(1,996)
– Share of results of associates *(Note 11)*	**5**	79
– Finance costs – net	**66,443**	38,057
	361,663	307,448
Changes in working capital:		
– Increase in trade and other receivables	**(94,655)**	(183,645)
– Increase in inventories	**(4,559)**	(558)
– Increase in amounts due from customers for construction contracts	**(45,674)**	(18,872)
– Increase in receivables under service concession arrangements	**(58,413)**	(43,799)
– Decrease in deferred revenue relating to research and development activities	**(20)**	(20)
– Increase/(decrease) in trade and other payables	**115,004**	(172,644)
Net cash generated/(used) in operations	**273,346**	(112,090)

29 COMMITMENTS

Capital commitments

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

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment	**45,237**	37,074

(ii) 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	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
No later than 1 year	**305**	315
Later than 1 year and no later than 2 year	**621**	305
Later than 2 year and no later than 5 year	**982**	963
Later than 5 years	**4,346**	4,707
	6,254	6,290

30 RELATED PARTY TRANSACTIONS

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

The Company is controlled by KDI which is a government-related enterprise established in the PRC by Kunming 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 can 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 2019 and 2018, and balances arising from related party transactions as at 30 June 2019 and 31 December 2018.

(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
Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司), ("**DIG**")	Controlled by Kunming SASAC

(b) Transactions with related parties

Save as disclosed elsewhere in this announcement, during the six months ended 30 June 2019 and 2018, the Group had the following significant transactions with related parties.

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

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
KDI	**–**	502,919

(ii) Loans granted to related parties:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
KIDC	**–**	300,000
Kunming Bus	**300,000**	300,000
Xindu Investment	**400,000**	–
DIG	**300,000**	–
	1,000,000	600,000

The transactions under finance arrangements among the Group and DIG, Kunming Bus and Xindu Investment are interest bearing at 8.5%, 8.5% and 7.5% per annual respectively and repayable within one year.

(iii) Interest income from related parties:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
KIDC	**–**	5,646
Kunming Bus	**4,943**	5,536
Xindu Investment	**12,639**	–
DIG	**4,877**	–
	22,459	11,182

(iv) Management services provided to related parties:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
KDI	**33,180**	26,258

(v) Commission charged by related parties:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Kunming CGE	**3,428**	3,433
Kunming Qingyuan	**358**	638
	3,786	4,071

(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	
	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**761**	834
Contributions to pension plans	**121**	126
Housing fund, medical insurance and other social insurance	**218**	217
	1,100	1,177

(d) Balances with related parties

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
KIDC	**–**	–
Kunming Bus	**300,565**	–
KDI	**88,508**	87,976
Xindu Investment	**424,796**	24,232
Kunming CGE	**17,228**	21,301
Kunming Qingyuan	**6,000**	9,111
DIG	**300,566**	–
	1,137,663	142,620

Other receivables are all non-trade receivables and will be settled upon demand of the Group except for DIG, Kunming Bus and Xindu Investment which are interesting bearing at 8.5%, 8.5% and 7.5% per annum respectively and repayable within one year.

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment:		
Xindu Investment	**16,040**	16,040
Collection and payment of payables:		
KDI	**136,470**	–
Acquisition of land use rights:		
KDI	**27,194**	27,194
Xindu Investment	**31,000**	31,000
Others:		
KDI	**17,513**	21,884
Kunming CGE	**754**	904
Kunming Qingyuan	**48**	302
	229,019	97,324

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

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

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
KDI	**5,000**	1,362

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

The Group is positioned as an integrated service provider of ecological environmental protection treatment in international operation and 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 May 2018, the National Conference of Ecological Environmental Protection proposed that "the construction of ecological civilization is the fundamental plan for the sustainable development of the Chinese nation" and proposed to resolutely fight the battle against pollution, further implement the action plan for water pollution prevention and control and accelerate improving shortcomings of urban sewage collecting and treatment facilities. It also proposed to fully utilize market-based means to promote the process of ecological environmental protection marketization and incite more social capital to enter the field of ecological environmental protection. In the second half of 2019 and the next longer period, ecological environment protection, especially water environment management, will usher in development opportunities. 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 centenaries" 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 m^3 in 2020 and the wastewater treatment capacity increasing from 168.4 million m^3 per day to 218.0 million m^3 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, the capacity of reclaimed water is expected to grow at a compound annual growth rate of 9.4% 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

History enters a new era. The construction of ecological civilization is a fundamental plan for the sustainable development of the Chinese nation. The entire cause of ecological and environmental protection has entered a new historical period. For the next longer period, under the guidance of active policies, the eco-environmental protection industry will release more space for the market.

The Company is a leader in the municipal sewage treatment and reclaimed water supply service industry in Yunnan Province, PRC and is the main responsible enterprise in the protection and management of Dianchi Lake. Facing new era and new opportunities, the Company will grasp the opportunities of deepening the reform and development of state-owned enterprises and tap its own potential. Relying on the financial resources of the two capital markets in Hong Kong and the PRC, the Company will actively expand the markets of domestic and international eco-environmental protection management business, especially the national markets along the One Belt One Road, and provide basic guarantees and professional services for environmental protection treatment, ecological civilization construction and economic and social development which create wealth for shareholders and create value for society.

The Company will focus on the positioning of an integrated service provider for eco-environmental protection treatment in international operation. Based in Kunming, Yunnan and relying on the domestic urban and rural ecological environmental protection and treatment market and overseas capital market, the Company integrates the water treatment technology at the forefront of developed countries and actively participates in the market competition of eco-environmental protection and treatment in Southeast Asia and South Asia and Southeast Europe. Through providing ecological environmental protection and treatment planning and water purification treatment project framework design, EPC construction contract, PPP project investment cooperation and eco-environmental protection and treatment comprehensive services by integrating operation and maintenance, the Company will become a multinational environmental protection listed company with certain international influence.

In the future, the Company will focus on investment in environmental protection industry projects, equity mergers and acquisitions with valuable contributions and investment in countries along the One Belt One Road to perform well, perform strongly, perform precisely, perform considerably and perform sustainably. 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 2019, our TOO projects contributed to 60.1% of our total revenue. Our TOT projects contributed to 4.2% of our total revenue and our BOT projects contributed to 10.9% 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 2019, we had a total of 42 plants under concession agreements, of which 38 plants were in operation and 4 plants were under construction. Among such 38 plants in operation, 14 were TOO projects, 19 were TOT projects, 3 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 2019, the total volume of wastewater treated was 299.2 million m^3 with an average facility utilization rate of 90.5%.

Wastewater Treatment Projects

As of 30 June 2019, we had a total of 33 wastewater treatment plants in operation (including 14 in Kunming and 19 in other areas of China), with a total wastewater treatment capacity of 1.8 million m^3. We also had 2 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. 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 2019, 92% 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 2019, 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 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, promoting utilization and recycling of reclaimed water, sponge city construction and rainwater collection and utilization projects in regions such as Chenggong District in Kunming City, Anning City, Xishuangbanna Autonomous Prefecture, Chuxiong Prefecture and Dali Prefecture.

Running Water Business

For our running water business, as of 30 June 2019, we had 5 running water plants in operation in Yunnan Province, PRC and 2 running water plants under construction.

Following continuous urbanization and renewal of water supply facilities, our running water business has been gradually carried out. The construction of running water plants projects in Lincang City and Zhaotong City of Yunnan Province has been carried out. The running water supply business is also advanced to areas such as Fumin County of Kunming City, Huaping County of Lijiang City and Yimen County in Yuxi City.

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended 30 June 2018, our revenue amounted to RMB556.9 million, and increased by 27.9% to RMB712.0 million for the six months ended 30 June 2019; our gross profit for the six months ended 30 June 2018 were RMB238.7 million and increased by 17.5% to RMB280.5 million for the six months ended 30 June 2019. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water supply, running water supply services and other services accounted for 68.5%, 14.0% and 17.5% of the total revenue respectively.

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

	For the six months ended 30 June (Unaudited)	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**711,998**	556,878
Cost of sales	**(431,510)**	(318,135)
Gross profit	**280,488**	238,743
Selling expenses	**(5,542)**	(6,583)
Administrative expenses	**(42,138)**	(52,247)
Research and development expenses	**(45)**	(2,871)
Net impairment losses on financial and contract assets	**(6,212)**	–
Other income	**23,338**	20,105
Other losses – net	**(82)**	(605)
Operating profit	**249,807**	196,542
Finance income	**28,526**	14,860
Finance costs	**(95,438)**	(52,962)
Finance costs – net	**(66,912)**	(38,102)
Share of results of associates	**(5)**	(79)
Profit before income tax	**182,890**	158,361
Income tax expense	**(32,623)**	(25,100)
Profit for the period	**150,267**	133,261
Other comprehensive income/(loss) for the period	**89**	1,383
Total comprehensive income for the period	**150,356**	134,644

a. Revenue

During the Reporting Period, our revenue amounted to approximately RMB712.0 million, an increase of RMB155.1 million or 27.9% as compared to approximately RMB556.9 million for the same period last year, primarily because:

Our revenue from wastewater treatment business increased by RMB12.9 million or 2.7% from RMB475.0 million for the six months ended 30 June 2018 to RMB487.9 million for the six months ended 30 June 2019, primarily due to an increase in the amount of wastewater treatment. Therefore, revenue from wastewater treatment operation increased by RMB23.0 million. As investment in original wastewater treatment construction projects decreased, construction revenue of wastewater treatment projects decreased by approximately RMB4.3 million. As the original projects were carried out normally, financial income of the franchise decreased by approximately RMB5.8 million.

Our revenue from other water service segments increased by RMB77.3 million or 349.8% from RMB22.1 million for the six months ended 30 June 2018 to RMB99.4 million for the six months ended 30 June 2019, primarily due to continuous construction of BT/BOT projects of Xundian County Park and part of road reclaimed water utilization and greening improvement project, Kunming Dianchi National Tourism Resort (Haigeng Pian area) water environment comprehensive improvement demonstration project and Shuangjiang second running water plant, etc. which increased construction revenue to RMB76.9 million, representing an increase of RMB69.6 million or 953.4% during the Reporting Period.

Our revenue from other segments increased by RMB64.9 million or 108.5% from RMB59.8 million for the six months ended 30 June 2018 to RMB124.7 million for the six months ended 30 June 2019, primarily because Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) has been consolidated since October 2018 and increased thermal power operation revenue by RMB59.4 million during the Reporting Period.

b. Cost of sales

During the Reporting Period, our cost of sales amounted to approximately RMB431.5 million, representing an increase of 35.6% as compared to approximately RMB318.1 million for the same period last year, primarily due to an increase in operation cost of water supply segment during the Reporting Period, as follows:

Our cost of sales of the wastewater treatment segment decreased by RMB14.7 million or 5.5% from RMB266.5 million for the six months ended 30 June 2018 to RMB252.4 million for the six months ended 30 June 2019, primarily due to a decrease in electricity cost during the current period.

Our cost of sales from other water service segments increased by RMB76.0 million or 363.6% from RMB20.9 million for the six months ended 30 June 2018 to RMB96.9 million for the six months ended 30 June 2019, primarily due to an increase in construction cost of each project based on the percentage of completion method and the construction cost of BT and BOT of new Kunming Dianchi National Tourism Resort (Haigeng Pian area) water environment comprehensive improvement demonstration project, Xundian county park and certain road reclaimed water utilization and greening improvement project and Shuangjiang second water plant amounted to RMB72.23 million.

Our cost of sales from other segments increased by RMB52.1 million or 169.47% from RMB30.7 million for the six months ended 30 June 2018 to RMB82.2 million for the six months ended 30 June 2019, primarily due to an increase in construction cost by RMB6.7 million from BT projects of the newly-built Shipansi and Laoqingshan flood control and detention works during the Reporting Period and Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) has been consolidated since October 2018. During the Reporting Period, the operating cost of thermal power increased by RMB47.5 million.

c. *Gross Margin*

During the Reporting Period, our gross margin was approximately 39.4%, representing a decrease of 3.5% as compared to 42.9% for the same period last year, primarily due to a decrease in gross margin of other water service segments and other segments, which was partially offset by an increase in gross profit of wastewater service segments.

Our gross profit of the wastewater treatment segment increased by RMB27.0 million or 12.9% from RMB208.5 million for the six months ended 30 June 2018 to RMB235.5 million for the six months ended 30 June 2019. Our wastewater treatment segment gross margin increased from 43.9% for the six months ended 30 June 2018 to 48.3% for the six months ended 30 June 2019, primarily due to a decrease in electricity cost during the current period and a decrease in the construction of the BT/BOT project during the construction phase and the lower construction gross profit during the construction phase.

Our gross profit from other water service segments increased by RMB1.3 million or 108.3% from RMB1.2 million for the six months ended 30 June 2018 to RMB2.5 million for the six months ended 30 June 2019. Our other water service segment gross margin decreased from 5.4% for the six months ended 30 June 2018 to 2.5% for the six months ended 30 June 2019, primarily due to an increase in investment in construction of BT/BOT projects of Xundian County Park and part of road reclaimed water utilization and greening improvement project, Kunming Dianchi National Tourism Resort (Haigeng Pian area) water environment comprehensive improvement demonstration project and Shuangjiang second running water plant, etc. which increased construction revenue during the Reporting Period and lower gross profit during project construction.

Our gross profit from other segments increased by RMB13.3 million or 45.7% from RMB29.1 million for the six months ended 30 June 2018 to RMB42.4 million for the six months ended 30 June 2019. Our gross margin of other segments decreased from 48.6% for the six months ended 30 June 2018 to 34.0% for the six months ended 30 June 2019 primarily because Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) which has lower gross profit of thermal power supply service has been consolidated since October 2018.

d. *Selling expenses*

During the Reporting Period, our selling expenses amounted to approximately RMB5.5 million, a decrease of RMB1.1 million or 15.8% as compared to approximately RMB6.6 million for the same period last year, primarily due to a decrease in commission charge for the current period.

e. *Administrative expenses*

During the Reporting Period, our administrative expenses amounted to approximately RMB42.1 million, a decrease of 19.3% as compared to approximately RMB52.2 million for the same period last year, mainly because the consulting service fee and audit fee in the professional service fee for the current period decreased significantly by approximately RMB10.1 million compared with the previous period.

f. *Other losses – net*

During the Reporting Period, our other losses – net amounted to RMB0.1 million, a decrease of RMB0.5 million as compared with approximately RMB0.6 million for the same period last year, mainly due to a decrease of RMB0.6 million in public welfare donations.

g. *Operating profit*

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to approximately RMB249.8 million, an increase of RMB53.3 million or 27.1% as compared to approximately RMB196.5 million for the same period last year. Our operating margin during the Reporting Period was 35.1%.

h. *Finance income*

During the Reporting Period, our finance income amounted to approximately RMB28.5 million, an increase of 91.3% as compared to approximately RMB14.9 million for the same period last year. The main reason was that the interest income of related party loans increased by RMB11.3 million during the current period and the interest income generated from construction contracts increased by RMB1.7 million.

i. Finance costs

During the Reporting Period, our finance expenses amounted to approximately RMB95.4 million, an increase of 80.2% as compared to approximately RMB53.0 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. At the same time, the exchange income in 2018 was RMB2.0 million which was converted into exchange loss of RMB17.9 million in 2019. The weighted average effective interest rate of our borrowings for the Reporting Period was 4.4%.

j. Profit before income tax

During the Reporting Period, our profit before income tax amounted to approximately RMB182.9 million, as compared to approximately RMB158.4 million for the same period last year, representing an increase of increase of RMB24.5 million or 15.5%.

k. Income tax

During the Reporting Period, our net income tax expense amounted to approximately RMB32.6 million, an increase of 29.9% as compared to RMB25.1 million for the same period last year. The effective tax rate was 17.8%, a decrease of 2.0 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 certain of our subsidiaries 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%.

l. Total comprehensive income

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to approximately RMB150.4 million, increased by 11.7% as compared to RMB134.6 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)	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated/(used) in operating activities	**169,924**	(173,967)
Net cash used in investing activities	**(892,175)**	(968,550)
Net cash generated from financing activities	**1,598,158**	1,301,427
Net increase in cash and cash equivalents	**875,907**	158,910
Foreign exchange gains/(losses)	**(17,988)**	1,980
Cash and cash equivalents at beginning of the period	**1,079,714**	1,291,170
Cash and cash equivalents at end of the period	**1,937,633**	1,452,060

a. *Net cash generated/(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 used 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 RMB170.0 million, increased by RMB344.0 million as compared to RMB-174.0 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 2018.

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 RMB-968.6 million for the six months ended 30 June 2018 to RMB-892.2 million for the six months ended 30 June 2019, primarily because payment of cash for purchase of property, plant and equipment was approximately RMB119.0 million during the current period. Entrusted loan of RMB1,000.0 million was provided to related parties. Proceeds from disposal of structured deposits amounted to 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 RMB1,301.4 million for the six months ended 30 June 2018 as compared to net cash generated from financing activities of RMB1,598.2 million for the six months ended 30 June 2019, primarily comprising loans of approximately RMB2,831.4 million and repaying borrowings and interest of approximately RMB1,233.3 million.

As of 30 June 2019, the net proceeds from the Global Offering of the Company' H shares amounted to RMB1,072.3 million, among which approximately RMB768.3 million (accounting for 71.6% of the net proceeds from the Global Offering) had been utilized in accordance with the use of proceeds as follows: RMB235 million was invested in BOT/BOO wastewater treatment and running water supply projects, RMB286.1 million was used to pay for the acquisition of TOT/TOO wastewater treatment and running water supply projects, RMB221.9 million was used to return loan interest and RMB25.3 million was used to replenish the working capital.

The remaining proceeds will be used according to the progress of the Company's investment projects and is expected to be used up within 1 year, details of which include:

- Approximately 13% (or RMB140.3 million) will be used for investments in BOT/BOO wastewater treatment and running water supply projects;

- Approximately 6.6% (or RMB71.2 million) will be used to acquire TOT/TOO wastewater treatment and running water supply projects;

- Approximately 8.6% (or RMB92.5 million) will be used for daily operation of the Group.

3. Working Capital

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

	Unaudited As at 30 June 2019	Audited As at 31 December 2018
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**14,504**	15,408
Inventories	**17,481**	12,921
Amounts due from customers for construction contracts	**18,097**	18,911
Trade and other receivables	**2,037,206**	942,551
Financial assets measured at fair value through profit or loss	**–**	170,000
Cash and cash equivalents	**1,937,633**	1,079,714
Restricted assets	**17,916**	17,916
Total current assets	**4,042,837**	2,257,421
Current liabilities		
Trade and other payables	**459,460**	379,708
Current income tax liabilities	**71,329**	84,589
Borrowings	**1,106,439**	1,014,505
Contract liabilities	**16,110**	11,737
Total current liabilities	**1,653,338**	1,490,539
Net current assets	**2,389,499**	766,882

Our net current assets increased from net current assets of RMB766.9 million as of 31 December 2018 to net current assets of RMB2,389.5 million for the six months ended 30 June 2019, primarily due to 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 12 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 RMB14.5 million as at 30 June 2019, representing a decrease of 5.8% from RMB15.4 million as at 31 December 2018, mainly due to decrease 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 RMB1,179.7 million as at 30 June 2019, representing an increase of 5.3% from RMB1,120.4 million as at 31 December 2018, mainly due to new construction investment of the BT/BOT projects of Kunming Dianchi National Tourism Resort (Haigeng Pian area) water environment comprehensive improvement demonstration project – river water replenishment project, Shuangjiang Wastewater Treatment Plant, Yiliang Industrial Park Wastewater Treatment Plant and supporting pipe network projects and the original projects were carried out normally.

b. Inventories

Our total inventory balance slightly increased from RMB12.9 million as of 31 December 2018 to RMB17.5 million as of 30 June 2019, representing an increase of RMB4.6 million or 35.3%, primarily due to increase in inventory of Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) amounted to RMB4.5 million.

For the six months ended 30 June 2019, our inventory turnover days were 6.3 days, an increase of 1.8 days as compared to the year ended 31 December 2018. 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 change in inventory turnover days was mainly due to the increase in costs of sales.

c. Amounts due from customers for construction contracts

As of 30 June 2019, our amounts due from customers for construction contracts were approximately RMB356.3 million, increased by RMB45.7 million as compared to RMB310.6 million as of 31 December 2018, primarily due to the new construction investment of the BT project of the Xundian County Park and part of the road reclaimed water utilization and greening improvement project, as well as other original projects were carried out normally.

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 electricity.

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

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Trade receivables:		
– Third parties	**56,463**	50,824
– Related parties	**134,660**	117,780
– Local government	**520,622**	434,418
– Loss allowance	**(12,685)**	(9,654)
Trade receivables – net	**699,060**	593,368
Notes receivable	**14,770**	–
Other receivables:		
– Third parties	**59,231**	28,481
– Related parties	**1,003,003**	24,780
– Local government	**37,346**	125,367
– Deductible VAT and prepaid tax	**27,151**	–
– Loss allowance	**(6,922)**	(640)
Other receivables – net	**1,119,809**	177,988
Prepayments:		
– Related parties	**–**	60
– Local government	**–**	3,304
– Others	**203,566**	167,831
Prepayments – net	**203,566**	171,195
Trade and other receivables – net	**2,037,206**	942,551

As of 30 June 2019, our net trade and other receivables was approximately RMB2,037 million, increased by RMB1,094.4 million or 116.1% as compared to approximately RMB942.6 million as of 31 December 2018, primarily due to (i) the provision of loans of RMB400.0 million to Xindu Investment; and provision of loans of RMB300.0 million to Kunming Bus and DIG respectively, totaling RMB1,000.0 million.

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

	Unaudited As at 30 June 2019 *RMB'000*	Audited As at 31 December 2018 *RMB'000*
– Within one year	**506,524**	576,932
– Over one year and within two years	**190,295**	23,067
– Over two years	**14,926**	3,023
	711,745	603,022

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

	As at 30 June 2019 *Days*	As at 31 December 2018 *Days*
Trade receivables turnover days (1)	**165.7**	54.2
Trade and other receivables turnover days (2)	**382.5**	100.8

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 2019 and the year ended 31 December 2018.

(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 2019 and the year ended 31 December 2018.

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:

	Unaudited As at 30 June 2019 *RMB'000*	Audited As at 31 December 2018 *RMB'000*
Trade payables	**33,898**	31,006
Other payables	**136,524**	106,923
Consideration unpaid for acquisition of subsidiaries	**23,619**	23,619
Staff salaries and welfare payables	**24,508**	46,091
Advance from customers	**–**	–
Payables on acquisition of property, plant and equipment	**30,257**	69,755
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Collection and payment of payables	**132,100**	
Interest payables	**1,716**	2,982
Accrued taxes other than income tax	**17,584**	41,138
Dividend payables	**177,450**	–
	635,850	379,708

As of 30 June 2019, our trade and other payables amounted to approximately RMB635.9 million, representing an increase of RMB256.2 million or 67.5% as compared to approximately RMB379.7 million as of 31 December 2018. The increase was primarily due to: (i) the provision of dividend payables of RMB177.6 million as of 30 June 2019; (ii) the accrued taxes other than income tax decreased by approximately RMB23.6 million from RMB41.1 million at the end of 2018 to RMB17.6 million as at 30 June 2019; (iii) the payables on acquisition of property, plant and equipment increased by approximately RMB96 million from approximately RMB69.7 million at the end of 2018 to approximately RMB166.7 million as at 30 June 2019, primarily because the payment for collection and payment to the related party Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司) increased by RMB132.1 million.

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

	Unaudited As at 30 June 2019 *RMB'000*	Audited As at 31 December 2018 *RMB'000*
– Within one year	**12,912**	16,682
– Over one year and within two years	**20,987**	14,324
	33,898	31,006

As at 30 June 2019 and 31 December 2018, 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 2019 *Days*	As at 31 December 2018 *Days*
Trade and other payables turnover days [(1)]	**175.0**	151.9
Trade payables turnover days [(2)]	**151.9**	102.3

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 2019 and the year ended 31 December 2018.

(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 2019 and the year ended 31 December 2018.

In 2019, our trade payables turnover days increased by 117.09 days compared to 2018, mainly due to a decrease of relevant procurement expenses amounted to RMB35.47 million.

Our directors confirm that up to 30 June 2019, there was no material default in payment of trade payables.

5. *Indebtedness*

a. *Borrowings*

All 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:

	Unaudited As at 30 June 2019 ***RMB'000***	Audited As at 31 December 2018 *RMB'000*
Non-current:		
Unsecured long-term borrowings	**150,000**	588,000
Secured long-term borrowings	**2,433,060**	480,635
Corporate bonds	**709,127**	696,064
Total non-current borrowings	**3,292,187**	1,764,699
Current:		
Unsecured short-term borrowings	**1,015,000**	917,000
Secured short-term borrowings	**91,439**	97,505
Total current borrowings	**1,106,439**	1,014,505
Total borrowings	**4,398,626**	2,779,204
Average effective interest rates	**4.43%**	5.25%

Our total debt amounted to approximately RMB4,398.6 million as of 30 June 2019, an increase of 58.3% from approximately RMB2,779.2 million as of 31 December 2018. As of 30 June 2019, approximately RMB508.05 million of our debt was secured by our property, plants and equipment and approximately RMB2,016.5 million was a credit guarantee loan (credit guarantee provided by the Company to Dianchi International Holdings Limited (滇池國際控股有限公司)), representing an increase of 336.7% as compared to approximately RMB578.1 million as of 31 December 2018. 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 2019, 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 2019, 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 2019, 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:

	Unaudited As at 30 June 2019	Audited As at 31 December 2018
	RMB'000	*RMB'000*
On demand or within 1 year	**1,106,440**	1,014,505
Between 1 and 2 years	**150,000**	584,810
Between 2 and 5 years	**2,725,573**	1,138,656
More than 5 years	**416,613**	41,233
	4,398,626	2,779,204

As of 30 June 2019, 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 26.5%, representing an increase of 0.3 percentage points from that as of 31 December 2018, primarily due to the increase in borrowings during the period.

Except as disclosed above, as of 30 June 2019, 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:

	Unaudited As at 30 June 2019	Audited As at 31 December 2018
	RMB'000	*RMB'000*
Property, plant and equipment	**45,237**	37,074

c. *Capital Expenditure*

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB84.5 million for the six months ended 30 June 2019, representing a decrease of 85.7% as compared to RMB591.8 million for the six months ended 30 June 2018.

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

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Wastewater treatment	**82,847**	568,836
Water supply	**–**	22,509
Others	**1,700**	480
	84,547	591,825

Based on our current business plan, we expect to incur capital expenditure amounting to RMB399.5 million for the year ending 31 December 2019. 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 2019, we had 1,110 full-time employees, 3 of whom were in Hong Kong and the rest 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 2019:

Function	**Number**
Management and Administration	139
Finance	21
R&D	74
Quality Monitoring	156
Marketing	13
Operations	670
Construction and Maintenance	37
Total	1,110

We recruit our employees from 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 2018 amounted to RMB59.7 million, and our employee benefits and labor expenses from January to June in 2019 amounted to RMB63.9 million, representing an increase of approximately RMB4.2 million or 7.0% as compared to the same period of 2018, 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 continuous 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 2019, the Group did not have any material contingent liability.

8. Major Investment and Acquisition

As of 30 June 2019, the Group did not have any major investment and acquisition.

9. Material Litigation

As of 30 June 2019, 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") and US dollars.

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

At 30 June 2019, if RMB had weakened/strengthened by 1% against HKD and USD with all other variables held constant, revenue for the six months ended 30 June 2019 would have been approximately RMB14,786,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD and USD denominated funds raised through the listing of the Company's H shares and conversion of bank borrowings into RMB.

11. Loans to Certain Entities

The Company entered into an entrusted loan contract with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司) ("**Xindu Investment**") and Kunming Branch of Evergrowing Bank Co., Ltd. (恒豐銀行股份有限公司昆明分行) ("**Evergrowing Bank**") on 17 January 2019, pursuant to which the Company entrusted Evergrowing Bank to provide an entrusted loan of RMB400 million to Xindu Investment with an annual interest rate of 7.5%. 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 17 January 2019.

The Company entered into an entrusted loan contract with Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司) ("**Kunming Bus**") and Kunming Branch of China CITIC Bank Corporation Limited (中信銀行股份有限公司昆明分行) ("**CITIC Bank**") on 3 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan 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 2019. In addition, the Company provided an entrusted loan to Kunming Bus amounted to RMB300 million in April 2018 and the loan was repaid in December 2018.

The Company entered into an entrusted loan contract with Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司) ("**DIG**") and CITIC Bank on 17 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan to DIG, 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 17 April 2019. In addition, the Company provided an entrusted loan to DIG amounted to RMB300 million in October 2018 and the loan was repaid in December 2018.

According to the knowledge of the Company, Xindu Investment, Kunming Bus and DIG are all controlled or held by Kunming SASAC and DIG holds 6.818% of the equity interest of Xindu Investment. In addition, Xindu Investment, Kunming Bus and DIG are not related to each other. These companies are independent of the Group or the connected persons of the Group.

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 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 Corporate Governance Code and has set up a series of corporate governance policies. The Directors believe that commencing from the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code except for provision A.2.1 and A.4.2.

During the Reporting Period, Ms. Guo Yumei is the Chairperson and President of the Company. In accordance with provision A.2.1 of the Corporate Governance Code, the roles of chairperson and chief executive officer 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 Corporate Governance Code, but in view of the development of the Group and Ms. Guo's extensive experience in the industry and long service history with the Group, the Board believes that Ms. Guo concurrently acting as the Chairperson and President can facilitate the execution of the Group's business strategies and enhance the operating efficiency. In addition, the Board comprises 3 independent non-executive Directors and 2 non-executive Directors during the Reporting Period, enabling the interest of the Company's shareholders to be represented sufficiently and fairly under the supervision by the Board.

In order to better coordinate the strategic development of the Company and to achieve better allocation of corporate governance responsibilities, the Company has appointed Mr. Chen Changyong (陳 昌 勇) as the general manager of the Company on 10 July 2019. Ms. Guo will continue to serve as the Chairperson of the Company. Since then, the Company has fully complied with the relevant provisions of provision A.2.1 of the Corporate Governance Code.

Under code provision A.4.2, every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years. As of 23 June 2019, the terms of office of the first Board and the board of supervisors of the Company have expired for 3 years, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers the continuity of the Board and the board of supervisors of the Company. Under the relevant provisions of the articles of association of the Company, if, upon the expiry of a director's term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the articles of association of the Company. Therefore, the Board considers that deviations from provision A.4.2 of the Corporate Governance Code will not have a significant impact on the Group's operation as a whole and the Company will complete the relevant work as soon as possible.

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

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 2019.

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 2019 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 2019 (six months ended 30 June 2018: nil).

VIII. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended 30 June 2019 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, 16 August 2019

As at the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Ms. Song Hong and Ms. Zhao Zhu, as non-executive Directors; and Mr. Yin Xiaobing, Mr. He Xifeng and Mr. Sin Lik Man, as independent non-executive Directors.