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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

2020 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2020, the Group's:

- revenue amounted to approximately RMB794.5 million, representing an increase of 11.6% from the corresponding period of last year;
- profit before tax amounted to approximately RMB196.9 million, representing an increase of 7.7% from the corresponding period of last year;
- net profit attributable to the equity holders of the Company amounted to approximately RMB159.6 million, representing an increase of 6.8% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.16, representing an increase of 6.7% from the corresponding period of last year.

The Board proposes to distribute an interim cash dividend for the six months ended 30 June 2020 of RMB0.054 per share (tax inclusive), totaling RMB55,571,994.00 (tax inclusive) to all shareholders of the Company (“**the Shareholders**”) whose names appear on the Company's registers of Shareholders of Domestic Shares and H Shares as at Tuesday, 17 November 2020. The expected dividend distribution date is Thursday, 24 December 2020.

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 2020 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2019, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Notes</i>	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Continuing operations			
Revenue	6	794,516	711,998
Cost of sales	26	<u>(489,386)</u>	<u>(431,510)</u>
Gross profit		305,130	280,488
Selling expenses	26	(6,515)	(5,542)
Administrative expenses	26	(59,062)	(42,138)
Research and development expenses	26	(2,449)	(45)
Net impairment losses on financial and contract assets		(8,948)	(6,212)
Other income	24	80,590	23,338
Other losses – net	25	<u>(13)</u>	<u>(82)</u>
Operating profit		<u>308,733</u>	<u>249,807</u>
Finance income	27	22,541	28,526
Finance costs	27	<u>(134,331)</u>	<u>(95,438)</u>
Finance costs – net	27	<u>(111,790)</u>	<u>(66,912)</u>
Share of results of associates		<u>(56)</u>	<u>(5)</u>
Profit before income tax		196,887	182,890
Income tax expense	28	<u>(36,298)</u>	<u>(32,623)</u>
Profit for the period		<u>160,589</u>	<u>150,267</u>
Profit attributable to:			
– The equity holders of the Company		159,555	149,452
– Non-controlling interests		<u>1,034</u>	<u>815</u>
		<u>160,589</u>	<u>150,267</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)**

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on consolidation		<u>796</u>	<u>89</u>
Total comprehensive income for the period		<u>161,385</u>	<u>150,356</u>
Total comprehensive income attributable to:			
– The equity holders of the Company		160,351	149,541
– Non-controlling interests		<u>1,034</u>	<u>815</u>
		<u>161,385</u>	<u>150,356</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted earnings per share	29	<u>0.16</u>	<u>0.15</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	<i>Notes</i>	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Investment properties	7	81,000	–
Right-of-use assets	8	460,313	464,182
Property, plant and equipment	9	2,950,679	3,058,900
Receivables under service concession arrangements	10	1,786,640	1,381,995
Amounts due from customers for construction contracts	16	600,770	516,266
Intangible assets	11	211,817	199,420
Investments in associates	12	14,777	14,833
Deferred tax assets	13	55,121	52,990
		6,161,117	5,688,586
Current assets			
Receivables under service concession arrangements	10	12,658	7,548
Inventories		13,080	22,636
Amounts due from customers for construction contracts	16	21,780	27,578
Financial assets at fair value through profit or loss	14	286,107	246,327
Trade and other receivables	15	2,278,323	2,225,415
Cash and cash equivalents	17	1,380,784	1,290,199
Restricted cash	17	7,972	67,966
		4,000,704	3,887,669
Total assets		10,161,821	9,576,255

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Notes</i>	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Deferred revenue	21	261,559	266,354
Borrowings	20	3,926,231	3,865,047
Lease liabilities	23	3,282	1,495
Deferred tax liabilities	13	84,793	74,473
		<u>4,275,865</u>	<u>4,207,369</u>
Current liabilities			
Trade and other payables	22	591,293	486,848
Income tax payables		68,237	75,273
Borrowings	20	1,084,446	701,320
Lease liabilities	23	3,287	3,786
Contract liabilities	22	11,526	7,238
		<u>1,758,789</u>	<u>1,274,465</u>
Total liabilities		<u>6,034,654</u>	<u>5,481,834</u>
Net assets		<u>4,127,167</u>	<u>4,094,421</u>
CAPITAL AND RESERVES			
Share capital	18	1,029,111	1,029,111
Other reserves	19	1,489,975	1,489,179
Retained earnings		1,600,291	1,569,375
Equity attributable to owners of the Company		<u>4,119,377</u>	4,087,665
Non-controlling interests		<u>7,790</u>	<u>6,756</u>
Total equity		<u>4,127,167</u>	<u>4,094,421</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

		Unaudited					
		Capital and reserves attributable to equity holders of the Company					
Note	Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>	
	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
	Other comprehensive income	–	–	–	–	–	–
	<i>Items that may be reclassified subsequently to profit or loss</i>	–	–	–	–	–	–
	Exchange differences on consolidation	–	89	–	89	–	89
	Total comprehensive income for the period	–	89	149,452	149,541	815	150,356
	Transactions with owners:						
	Dividends	–	–	(176,390)	(176,390)	(1,060)	(177,450)
	As at 30 June 2019	<u>1,029,111</u>	<u>1,452,373</u>	<u>1,386,440</u>	<u>3,867,924</u>	<u>5,903</u>	<u>3,873,827</u>
	As at 1 January 2020	1,029,111	1,489,179	1,569,375	4,087,665	6,756	4,094,421
	Comprehensive income:						
	Profit for the period	–	–	159,555	159,555	1,034	160,589
	Other comprehensive income	–	–	–	–	–	–
	<i>Items that may be reclassified subsequently to profit or loss</i>	–	–	–	–	–	–
	Exchange differences on consolidation	–	796	–	796	–	796
	Total comprehensive income for the period	–	796	159,555	160,351	1,034	161,385
	Transactions with owners:						
	Dividends	–	–	(128,639)	(128,639)	–	(128,639)
	As at 30 June 2020	<u>1,029,111</u>	<u>1,489,975</u>	<u>1,600,291</u>	<u>4,119,377</u>	<u>7,790</u>	<u>4,127,167</u>

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020

		Unaudited	
	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash (used in)/generated from operations	31	(544,109)	273,346
Interest paid		(107,078)	(58,640)
Income tax paid		(35,145)	(44,782)
		<u> </u>	<u> </u>
Net cash (used in)/generated from operating activities		(686,332)	169,924
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(64,505)	(119,041)
Purchase of intangible assets		–	(1,660)
Advances to related parties	33(b)(i)	(650,000)	(1,000,000)
Repayments from related parties	33(b)(ii)	1,000,000	–
Interest received		29,694	28,526
Government grants received relating to purchase of property, plant and equipment		–	30,000
Proceeds from disposals of investments in financial assets at fair value through profit or loss		–	170,000
Proceeds from disposal of property, plant and equipment		89	–
		<u> </u>	<u> </u>
Net cash generated from/(used in) investing activities		315,278	(892,175)
FINANCING ACTIVITIES			
Proceeds from borrowings		1,015,000	2,831,447
Recovery of restricted bank deposits		59,994	–
Repayments of borrowings		(628,719)	(1,233,289)
Repayments of lease liabilities		(2,196)	–
		<u> </u>	<u> </u>
Net cash from financing activities		444,079	1,598,158
Net increase in cash and cash equivalents		73,025	875,907
Cash and cash equivalents at beginning of the period		1,290,199	1,079,714
Exchange gains/(loss)		17,560	(17,988)
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the period		<u>1,380,784</u>	<u>1,937,633</u>

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 (the “**Stock Exchange**”) 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 37 were approved for issue by the Board on 21 August 2020.

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 38 to 64 of this announcement.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”), which collective term includes all applicable individual IFRSs, International Accounting Standards (“**IASs**”) and Interpretations issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). There is no significant difference between the data recognised through the IASs and the data recognised in accordance with the Chinese Accounting Standards.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company, and rounded to the nearest thousands unless otherwise indicated.

This condensed consolidated interim financial report for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 Interim Financial Reporting.

2 BASIS OF PREPARATION (Continued)

Statement of compliance (Continued)

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 2019. 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 2019. As of the date of approval of the unaudited condensed consolidated financial statements, the International Accounting Standards Board has issued the following new/revised international financial reporting standards that are not yet effective for the current financial year and have not been early adopted by the Group:

Amendments to IAS 1 and IAS 8	Disclosure plan-definition of materiality
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform
Amendments to IFRS 3	Definition of business
Amendments to IFRS 16	COVID-19 related rental concessions
Amendments to IAS 16	Proceeds prior to intended use
Amendments to IFRS 3	Conceptual framework guidelines
Annual Improvements to IFRSs	2018-2020 Cycle
Amendments to IAS 37	Costs of contract performance
Amendments to IAS 1	Classification of liabilities as current or non-current
IFRS 17	Insurance contracts
Amendments to IFRS 10 and IAS 28	Asset sales or capital contributions between investors and their associated companies or joint ventures

The management of the Group anticipates that the adoption of the new/revised IFRSs in the future periods will not have any significant impact on the Group's consolidated financial statements.

3 CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the period.

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 2019 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 2019 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 United States dollars ("USD"). Foreign exchange risk arises from cash and cash equivalents and borrowings denominated in HKD and USD. The Group has entered into a currency swap agreement with a major borrowing bank to manage the currency risk in related to the borrowings.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.2 Foreign exchange risk (Continued)

As at 30 June 2020, if RMB had weakened/strengthened by 1% (2019: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, revenue for the six months ended 30 June 2020 would have been approximately RMB4,374,345 (2019: RMB7,373,433) higher/lower. If RMB had weakened/strengthened by 1% (2019: 1%) against HKD and USD denominated borrowings with all other variables held constant, net profit for the year would have been approximately RMB24,960,326 (2019: RMB20,951,910) lower/higher.

5.3 Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, term deposits with initial term of over three months, trade and other receivables, receivables under service concession arrangements and amounts due from customers for construction contracts included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

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

For receivables, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. As at 30 June 2020, the ageing analysis of trade receivables is set out in Note 15.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each Reporting Period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

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 <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2020 (Unaudited)					
Borrowings	1,529,330	2,101,257	1,718,278	–	5,348,865
Financial liabilities included in trade and other payables	552,032	–	–	–	552,032
Lease liabilities	3,287	102	422	2,758	6,569
	<u>2,084,649</u>	<u>2,101,359</u>	<u>1,718,700</u>	<u>2,758</u>	<u>5,907,466</u>
	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2019 (Audited)					
Borrowings	896,651	407,472	3,710,252	–	5,014,375
Financial liabilities included in trade and other payables	422,593	–	–	–	422,593
Lease liabilities	3,970	1,515	–	–	5,485
	<u>1,323,214</u>	<u>408,987</u>	<u>3,710,252</u>	<u>–</u>	<u>5,442,453</u>

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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 2019 on a recurring basis:

At 31 December 2019 (Audited)	Level 1	Level 2	Level 3	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Cross Currency swap classified as financial assets at FVPL	–	46,327	–	46,327
Investment in Single Asset Management Plan classified as financial assets at FVPL	–	–	200,000	200,000

The following table shows the Group's assets and liabilities that are regularly measured at fair value as at 30 June 2020:

At 30 June 2020 (Unaudited)	Level 1	Level 2	Level 3	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Cross Currency swap classified as financial assets at FVPL	–	86,107	–	86,107
Investment in Single Asset Management Plan classified as financial assets at FVPL	–	–	200,000	200,000

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

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

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.5 Fair value estimation (Continued)

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

- 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, holding of investment properties and transportation business.

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

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

6 SEGMENT AND REVENUE INFORMATION (Continued)

(a) Revenue

The revenue of the Group for the six months ended 30 June 2020 and 2019 are set out as follows:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	<i>RMB'000</i>
Wastewater treatment	537,347	487,914
Operating services – under TOO model	390,050	416,284
Operating services – under TOT/BOT model	50,240	30,389
Construction services – under BT model	334	12,479
Construction services – under BOT model	64,020	22,494
Finance income	32,703	6,268
Reclaimed water supply and running water supply	60,955	99,434
Operating services – under TOO model	10,313	16,560
Operating services – under TOT/BOT model	6,706	6,016
Construction services – under BT model	99	36,773
Construction services – under BOT model	28,737	40,085
Finance income	15,100	–
Others	196,214	124,650
Management services	83,113	42,674
Transportation services	1,976	2,099
Construction services – under BT model	59,833	9,046
Thermoelectricity services	38,612	59,361
Others	12,680	11,470
	794,516	711,998

6 SEGMENT AND REVENUE INFORMATION (Continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2020 is as follows:

Business segment	For the six months ended 30 June 2020 (Unaudited)			
	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	<u>537,347</u>	<u>60,955</u>	<u>196,214</u>	<u>794,516</u>
Segment gross profit	<u>249,726</u>	<u>23,247</u>	<u>32,157</u>	<u>305,130</u>
Segment profit	<u>257,586</u>	<u>25,047</u>	<u>26,100</u>	<u>308,733</u>
Finance income				22,541
Finance costs				(134,331)
Share of results of associates				<u>(56)</u>
Profit before income tax				<u><u>196,887</u></u>
Other information				
Depreciation of property, plant and equipment	98,647	754	8,533	107,934
Depreciation expense of right-of-use assets	6,159	152	1,042	7,353
Amortization of intangible assets	4,859	121	–	4,980
Capital expenditure	<u>83,289</u>	<u>1,529</u>	<u>548</u>	<u>85,366</u>
As at 30 June 2020 (Unaudited)				
Business segment	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Segment assets	<u>7,467,689</u>	<u>817,765</u>	<u>1,806,469</u>	<u>10,091,923</u>
Unallocated:				
Deferred tax assets				55,121
Investments in associates				<u>14,777</u>
Total assets				<u><u>10,161,821</u></u>
Segment liabilities	<u>4,557,659</u>	<u>306,292</u>	<u>1,017,673</u>	<u>5,881,624</u>
Unallocated:				
Deferred tax liabilities				84,793
Income tax payables				<u>68,237</u>
Total liabilities				<u><u>6,034,654</u></u>

6 SEGMENT AND REVENUE INFORMATION (Continued)

(c) Geographical information

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

(d) Information about major customers

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

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Customer A	255,942	276,050
Customer B	113,258	105,782
	<u>369,200</u>	<u>381,832</u>

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 INVESTMENT PROPERTIES

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
At fair value		
At the beginning of the reporting period	—	—
Transferred from construction in progress	64,686	—
Net change in fair value recognized in profit or loss	16,314	—
At the end of the reporting period	<u>81,000</u>	<u>—</u>

The Group's entire property interests were held under leases to earn rentals income or for capital appreciation which were measured using fair value model and were classified and accounted for as investment properties. The Group's investment properties were located in the PRC.

For the six months ended 30 June 2020, the commercial properties in Kunming were transferred from construction in progress to investment properties and a fair value gain of approximately RMB16,314,400 was recognized in the consolidated income statement after the transfer.

The value of the Group's investment properties is determined by the Directors of the Company with reference to the transaction price information of similar properties in the market.

None of the Group's investment properties measured at fair value are categorised as level 1 and level 2. The Group's investment properties are categorised as level 3.

7 INVESTMENT PROPERTIES (Continued)

The following table shows the significant unobservable inputs used in the valuation model.

Assets	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity of unobservable inputs
Investment properties located in the PRC	Level 3	Direct comparison approach	Adjusted market price per square meter ranging from RMB9,100/sq.m. to RMB11,000/sq.m.	10%	+ The higher adjusted market price, the higher fair value of the investment properties, and vice versa	Increase/Decrease 10% result in increase/decrease in fair value by RMB8,100,000/RMB8,100,000

The fair value measurement is based on the above asset's highest and best use, which does not differ from their actual use.

No investment properties were pledged as at 30 June 2020.

8 RIGHT-OF-USE ASSETS

The Group's right-of-use assets represents (i) the prepaid lease payments for land located in the PRC, and (ii) leased properties.

	Land use Rights RMB'000	Leased Properties RMB'000	Total RMB'000
Reconciliation of carrying amount			
– for the six months ended 30 June 2019			
At the beginning of the reporting period	469,125	–	469,125
Depreciation	(4,928)	–	(4,928)
At the end of the reporting period	<u>464,197</u>	<u>–</u>	<u>464,197</u>
Reconciliation of carrying amount			
– for the six months ended 30 June 2020			
At the beginning of the Reporting Period	459,035	5,147	464,182
Additions	–	3,484	3,484
Depreciation	(5,355)	(1,998)	(7,353)
At the end of the reporting period	<u>453,680</u>	<u>6,633</u>	<u>460,313</u>

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)						
Six months ended 30 June 2020						
Opening net book value	1,769,153	550,133	44,643	12,843	682,128	3,058,900
Additions (a)	721	2,702	1,183	667	59,232	64,505
Transfers to investment properties	-	-	-	-	(64,686)	(64,686)
Disposals	-	(26)	(3)	(77)	-	(106)
Depreciation (Note 26)	(46,781)	(56,678)	(2,652)	(1,823)	-	(107,934)
Closing net book value	<u>1,723,093</u>	<u>496,131</u>	<u>43,171</u>	<u>11,610</u>	<u>676,674</u>	<u>2,950,679</u>
	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
(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	3,668	2,584	638	46	75,951	82,887
Depreciation (Note 26)	(50,601)	(51,497)	(3,124)	(1,496)	-	(106,718)
Closing net book value	<u>1,707,804</u>	<u>583,709</u>	<u>45,562</u>	<u>13,658</u>	<u>679,040</u>	<u>3,029,773</u>

(a) For the six months ended 30 June 2020, additions were RMB64,505,487 and the depreciation was RMB107,934,063.

(b) The net book values of property, plant and equipment pledged as collateral for the Group's borrowings (Note 20) as at the respective balance sheet dates were as follows:

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Buildings and facilities	369,784	380,816
Machinery and equipment	8,085	9,749
	<u>377,869</u>	<u>390,565</u>

10 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 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	<u>12,658</u>	<u>7,550</u>
Loss allowance	<u>–</u>	<u>(2)</u>
	<u>12,658</u>	<u>7,548</u>
Non-current portion:		
Receivables under service concession arrangements	<u>1,787,488</u>	<u>1,382,480</u>
Loss allowance	<u>(848)</u>	<u>(485)</u>
	<u>1,786,640</u>	<u>1,381,995</u>
	<u>1,799,298</u>	<u>1,389,543</u>

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

11 INTANGIBLE ASSETS

	Computer software <i>RMB'000</i>	Operating concession <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)				
Six months ended 30 June 2020				
Opening net book value	8,080	191,340	–	199,420
Additions	–	17,377	–	17,377
Amortization (Note 26)	<u>(1,465)</u>	<u>(3,515)</u>	<u>–</u>	<u>(4,980)</u>
Closing net book value	<u>6,615</u>	<u>205,202</u>	<u>–</u>	<u>211,817</u>
	Computer software <i>RMB'000</i>	Operating concession <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)				
Six months ended 30 June 2019				
Opening net book value	11,264	163,336	9,958	184,558
Additions	–	–	1,660	1,660
Amortization (Note 26)	<u>(1,960)</u>	<u>(3,165)</u>	<u>–</u>	<u>(5,125)</u>
Closing net book value	<u>9,304</u>	<u>160,171</u>	<u>11,618</u>	<u>181,093</u>

12 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 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Unlisted shares		
Share of net assets	5,435	5,491
Goodwill	<u>9,342</u>	<u>9,342</u>
At the end of the reporting period	<u><u>14,777</u></u>	<u><u>14,833</u></u>

Fair value of investments

At the end of the reporting period, all of the Group's associates are private companies and there was no quoted market price available for the investments.

Financial information of associates

Summarised financial information of the associates of the Group is set out below, which represents amounts shown in the associates' financial statements prepared in accordance with IFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.

Details of the associates at the end of the reporting period are as follows:

Name of entities	Country/place and date of establishment	Paid-up capital <i>RMB'000</i>	Proportion of ownership interest held by the Group		Principal activities
			Unaudited 30 June 2020	Audited 31 December 2019	
Yunnan Dianchi Information Construction Management Co., Ltd.* (雲南滇池信息建設管 理有限公司, “Dianchi Information”)	PRC, Kunming 14 May 2012	2,500	40%	40%	Construction of communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd.* (雲南滇池嘉 淨環保科技有限公司, “Dianchi Jiajing”)	PRC, Kunming 13 April 2012	11,600	40%	40%	Research and promotion of environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd.* (昆明藻井泉 香生物科技有限公司, “Kunming Zaojing”)	PRC, Kunming 12 August 2010	8,000	35%	35%	Research and development of biological products

12 INVESTMENTS IN ASSOCIATES (Continued)

Financial information of associates (Continued)

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

	Assets <i>RMB'000</i>	Liabilities <i>RMB'000</i>	Revenues <i>RMB'000</i>	Losses <i>RMB'000</i>	Net assets <i>RMB'000</i>
For the six months ended 30 June 2020	<u>6,871</u>	<u>1,436</u>	<u>174</u>	<u>(56)</u>	<u>5,435</u>
For the year ended 31 December 2019	<u>7,092</u>	<u>1,601</u>	<u>1,168</u>	<u>(241)</u>	<u>5,491</u>

13 DEFERRED TAX ASSETS AND LIABILITIES

	Unaudited 30 June 2020 <i>RMB'000</i>	Audited 31 December 2019 <i>RMB'000</i>
Deferred tax assets:		
– to be recovered within 12 months	9,309	7,643
– to be recovered after more than 12 months	<u>45,812</u>	<u>45,347</u>
	<u>55,121</u>	<u>52,990</u>
Deferred tax liabilities:		
– to be recovered within 12 months	–	2,061
– to be recovered after more than 12 months	<u>84,793</u>	<u>72,412</u>
	<u>84,793</u>	<u>74,473</u>

Movements in deferred tax assets and liabilities during the six months ended 30 June 2020 and 2019, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

	Unaudited Six months ended 30 June	
Deferred tax assets	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At the beginning of the period	52,990	50,861
Recognized in the consolidated statement of comprehensive income (<i>Note 28</i>)	<u>2,131</u>	<u>8,891</u>
At the end of the period	<u>55,121</u>	<u>59,752</u>

13 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Deferred tax assets as at 30 June 2020 and 2019 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 right-of-use assets injected by Kunming Dianchi Investment Co., Ltd.* (昆明滇池投資有限責任公司) (“KDI”) upon the incorporation of the Company.

	Unaudited	
	Six months ended 30 June	
Deferred tax liabilities	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the period	74,473	64,040
Recognized in the consolidated statement of comprehensive income (Note 28)	<u>10,320</u>	<u>9,734</u>
At the end of the period	<u>84,793</u>	<u>73,774</u>

Deferred 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 2020.

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	Unaudited 30 June 2020	Audited 31 December 2019
		<i>RMB'000</i>	<i>RMB'000</i>
Derivatives not designated as hedging instruments			
– Cross Currency swap (“CCS”)	(a)	86,107	46,327
Investment in Single Asset Management Plan	(b)	<u>200,000</u>	<u>200,000</u>
		<u>286,107</u>	<u>246,327</u>

(a) The maturities of the derivatives are expiring on 26 March 2021, 27 September 2021 and 28 March 2022. The objective of these derivatives entered into by the Group is to mitigate the currency exposures arising from the bank borrowings of USD170,000,000 and HKD1,015,000,000 incepted principally for funding the operations of the subsidiaries incorporated in the PRC. These derivatives are not qualified for hedge accounting and their corresponding changes in fair values have been recognised in profit or loss. As at 30 June 2020, gain on change in fair value of the currency swap arrangement in an aggregate amount of RMB86,106,912 was credited to profit or loss.

The fair value is estimated by using the discounted cash flow technique.

(b) On 27 December 2019, the Group entered into an Asset Management Agreement with an independent China-based financial institution (known as the Asset Manager) and another independent China-based financial institution (known as the Asset Entrustee), pursuant to which the Group agreed to entrust an amount of up to RMB400 million as the Entrusted Assets for the investment in a Single Asset Management Plan issued by Kunming Industrial Development and Investment Co., Ltd. (“IDI”), a wholly state-owned company holding 5.99% of total issued share capital of the Company at the end of the Reporting Period. The investment in Single Asset Management Plan included certain accounts receivables and other non-standardised credit assets transferred from IDI. The Single Asset Management Plan has no guaranteed returns and lasts for 12 months investment period.

As at 30 June 2020, the Group invested RMB200 million to the Single Asset Management Plan. From the report of the Asset Manager, the fair value of the Single Asset Management Plan approximates the carrying amount at the end of the Reporting Period.

15 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables (Note (a)):		
– Third parties	65,933	80,165
– Related parties (Note 33)	184,866	123,168
– Local government	1,118,764	780,419
– Loss allowance	(22,218)	(16,294)
	<u>1,347,345</u>	<u>967,458</u>
Trade receivables – net	1,347,345	967,458
Other receivables:		
– Third parties	66,203	57,597
– Related parties (Note 33)	675,949	1,026,202
– Local government	71,593	47,057
– Loss allowance	(5,506)	(3,472)
	<u>808,239</u>	<u>1,127,384</u>
Other receivables – net	808,239	1,127,384
Prepayments:		
– Local government	–	3,587
– Others	122,743	126,990
– Impairment loss	(4)	(4)
	<u>122,739</u>	<u>130,573</u>
Prepayments – net	122,739	130,573
Trade and other receivables – net	2,278,323	2,225,415

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 2020 RMB'000	Audited 31 December 2019 RMB'000
– Within one year	964,696	935,027
– Over one year and within two years	390,148	37,300
– Over two years	14,719	11,425
	<u>1,369,563</u>	<u>983,752</u>

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

16 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognized profits less recognized losses:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Costs incurred to date plus recognized profits less recognized losses		
Current portion:		
Amounts due from customers for construction contracts	22,110	28,030
Loss allowance	<u>(330)</u>	<u>(452)</u>
	<u>21,780</u>	<u>27,578</u>
Non-current portion:		
Amounts due from customers for construction contracts	607,165	521,948
Loss allowance	<u>(6,395)</u>	<u>(5,682)</u>
	<u>600,770</u>	<u>516,266</u>
	<u><u>622,550</u></u>	<u><u>543,844</u></u>

17 CASH AND CASH EQUIVALENTS

		Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Cash and cash equivalents	(a)	1,380,784	1,290,199
Restricted cash	(b)	<u>7,972</u>	<u>67,966</u>

(a) Cash and cash equivalents are denominated in:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
RMB	990,066	552,856
HKD	369,094	714,487
USD	<u>21,624</u>	<u>22,856</u>
	<u><u>1,380,784</u></u>	<u><u>1,290,199</u></u>

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 0.30% to 1.92% during the six months ended 30 June 2020 (31 December 2019: 0.30% to 1.92%).

(b) As at 30 June 2020 and 31 December 2019, the restricted cash mainly comprised of guarantee deposits for construction projects.

18 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
At 1 January 2020 and 30 June 2020 (Unaudited)	<u>1,029,111</u>	<u>1,029,111</u>
At 1 January 2019 and 30 June 2019 (Unaudited)	<u>1,029,111</u>	<u>1,029,111</u>

19 OTHER RESERVES

	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2020	1,283,440	251,226	(47,793)	2,306	1,489,179
Currency translation differences	—	—	—	796	796
At 30 June 2020 (unaudited)	<u>1,283,440</u>	<u>251,226</u>	<u>(47,793)</u>	<u>3,102</u>	<u>1,489,975</u>
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)	<u>1,283,440</u>	<u>215,202</u>	<u>(47,793)</u>	<u>1,524</u>	<u>1,452,373</u>

20 BORROWINGS

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Non-current:		
Unsecured long-term borrowings	405,000	340,000
Secured long-term borrowings (Note (b))	2,809,004	2,828,418
Corporate bonds (Note (c))	<u>712,227</u>	<u>696,629</u>
	<u>3,926,231</u>	<u>3,865,047</u>
Current:		
Unsecured short-term borrowings	985,000	615,000
Secured short-term borrowings (Note (b))	<u>99,446</u>	<u>86,320</u>
	<u>1,084,446</u>	<u>701,320</u>
	<u>5,010,677</u>	<u>4,566,367</u>

20 **BORROWINGS (Continued)**

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

(b) As at 30 June 2020 and 31 December 2019, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
Secured by:		
Corporate guarantee issued by the Company	2,496,032	2,453,503
Property, plant and equipment	412,418	461,235
Total	<u>2,908,450</u>	<u>2,914,738</u>

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

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

	6 months or less <i>RMB'000</i>	Between 6 and 12 months <i>RMB'000</i>	Between 1 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2020 (Unaudited)	<u>100,718</u>	<u>983,728</u>	<u>3,926,231</u>	<u>5,010,677</u>
As at 31 December 2019 (Audited)	<u>603,549</u>	<u>97,771</u>	<u>3,865,047</u>	<u>4,566,367</u>

(e) The maturity of borrowings is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
On demand or within 1 year	1,084,446	701,320
Between 1 and 2 years	2,233,637	241,670
Between 2 and 5 years	1,692,594	3,623,377
	<u>5,010,677</u>	<u>4,566,367</u>

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
Borrowings	<u>6.21%</u>	<u>4.83%</u>

20 BORROWINGS (Continued)

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

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
RMB facilities	<u>1,370,000</u>	<u>1,225,000</u>

21 DEFERRED REVENUE

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 <i>RMB'000</i>
Government grants related to:		
– property plant and equipment	260,937	265,588
– research and development activities	<u>622</u>	<u>766</u>
	<u>261,559</u>	<u>266,354</u>

The movement of government grants during the six months ended 30 June 2020 and 2019 is set out as follows:

	Unaudited Six months ended 30 June 2020 RMB'000	2019 <i>RMB'000</i>
Opening net book value	266,354	222,530
Additions	–	30,000
Amortization (<i>Note 24</i>)	(4,795)	(4,466)
Others	<u>–</u>	<u>(6,969)</u>
Closing net book value	<u>261,559</u>	<u>241,095</u>

22 TRADE AND OTHER PAYABLE

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade payables	187,311	150,971
Other payables due to:	124,023	146,012
– related parties (Note 33)	12,735	14,635
– local government	1,717	1,791
– third parties	109,571	129,586
Consideration payable for acquisition of subsidiaries	20,958	21,209
Staff salaries and welfare payables	24,103	42,285
Payables on acquisition of property, plant and equipment:	32,907	46,207
– related parties (Note 33)	16,040	16,040
– third parties	16,867	30,167
Payables on acquisition of land use rights from related parties (Note 33)	58,194	58,194
Dividend payables (Note 30)	128,639	–
Interest payables	3,570	4,586
Accrued taxes other than income tax	11,588	17,384
	<u>591,293</u>	<u>486,848</u>
	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000

Contract liabilities		
– third parties	<u>11,526</u>	<u>7,238</u>

- (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 2020 RMB'000	Audited 31 December 2019 RMB'000
– Within one year	174,337	137,309
– Over one year and within two years	<u>12,974</u>	<u>13,662</u>
	<u>187,311</u>	<u>150,971</u>

23 LEASES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Right-of-use assets (Note 8)		
– Leased properties	6,633	5,147
– Land use right	453,680	459,035
	<u>460,313</u>	<u>464,182</u>
Lease liabilities		
Current	3,287	3,786
Non-current	3,282	1,495
	<u>6,569</u>	<u>5,281</u>

24 OTHER INCOME

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Government grants:	13,037	14,346
– relating to property, plant and equipment (Note 21)	4,651	4,446
– relating to research and development activities (Note 21)	144	20
– relating to tax refund (Note (a))	8,242	9,880
Interest income from cash and cash equivalents	1,963	4,206
Net fair value gain on financial assets at fair value through current profit or loss	39,780	–
Changes in fair value of investment properties	16,314	–
Others	9,496	4,786
	<u>80,590</u>	<u>23,338</u>

- (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.

25 OTHER LOSSES – NET

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Donation expenses	(5)	(17)
Others	(8)	(65)
	<u>(13)</u>	<u>(82)</u>

26 EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of properties, plant and equipment (Note 9)	107,934	106,718
Cost of construction services	137,368	108,481
Employee benefit expenses	77,121	60,210
Utilities and electricity	59,585	59,349
Fuel and power fee	26,335	33,575
Costs of wastewater treatment and water supply services	55,294	39,413
Taxes and levies	13,850	13,914
Professional expenses	8,143	8,184
Labour costs	14,943	10,668
Repair and maintenance costs	12,039	10,700
Depreciation expense of right-of-use assets/Amortization of land use rights (Note 8)	7,353	4,928
Transportation costs	5,626	5,771
Amortization of intangible assets (Note 11)	4,980	5,125
Commission charge (Note 33)	4,049	3,786
Office expenditures	4,891	4,733
Materials used in research and development activities	2,449	45
Auditor's remuneration	396	1,033
Miscellaneous	15,056	2,602
	<u>557,412</u>	<u>479,235</u>
Total cost of sales, selling expenses, administrative expenses and research and development expenses	<u>557,412</u>	<u>479,235</u>

27 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
– Interest income from time deposits	880	693
– Interest income charged to related parties (Note 33)	21,661	22,459
– Interest income arising from construction contracts	–	5,374
	<u>22,541</u>	<u>28,526</u>
Finance costs:		
– Interest expenses on borrowings	(122,186)	(84,980)
– Less: borrowing costs capitalized in property, plant and equipment	16,432	7,999
	<u>(105,754)</u>	<u>(76,981)</u>
– Interest expenses – net	(105,754)	(76,981)
– Exchange losses	(28,518)	(17,988)
– Others	(59)	(469)
	<u>(134,331)</u>	<u>(95,438)</u>
Finance costs – net	<u>(111,790)</u>	<u>(66,912)</u>

28 INCOME TAX EXPENSE

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

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax	28,109	31,780
Deferred tax (Note 13)	8,189	843
	<u>36,298</u>	<u>32,623</u>
Income tax expense	<u>36,298</u>	<u>32,623</u>

Under the Law of the PRC on Corporate Income Tax (the “CIT Law”) and implementation Regulations of the CIT Law, the tax rate of the PRC 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 2020 and 2019, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

- China’s west region development policy (the “West Region Development Policy”) is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in the western provinces of China. During the six months ended 30 June 2020 and 2019, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.
- 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.
- The Group estimated that the forecasted effective tax rate for the year ending 31 December 2020 is 18.4% and the effective tax rate for the year ended 31 December 2019 was 16.9%.

29 EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2020	2019
Profit attributable to equity holders of the Company (RMB'000)	159,555	149,452
Weighted average number of ordinary shares in issue (thousand)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (RMB)	<u>0.16</u>	<u>0.15</u>

- The diluted earnings per share are the same as the basic earnings per share as there was no dilutive potential share during the six months ended 30 June 2020 and 2019.

30 DIVIDENDS

As approved by the Shareholders’ meeting held on 19 June 2020, the Company may pay a cash dividend for the year ended 31 December 2019 of RMB0.125 (tax inclusive) for every ordinary share amounting to approximately RMB128,638,875 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 2019 but have been reflected as dividends distribution for the six months ended 30 June 2020. The 2019 dividends had been distributed to the Shareholder on 6 August 2020.

31 CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period before income tax	<u>196,887</u>	<u>182,890</u>
Adjustments for:		
– Depreciation of property, plant and equipment (<i>Note 26</i>)	107,934	106,718
– Depreciation expense of right-of-use assets (<i>Note 26</i>)	7,353	4,928
– Amortization of intangible assets (<i>Note 26</i>)	4,980	5,125
– Government grants relating to purchase of property, plant and equipment (<i>Note 24</i>)	(4,651)	(4,446)
– Share of results of associates (<i>Note 12</i>)	56	5
– Finance costs – net	83,272	66,443
– Fair value gains on derivative financial instruments and investment properties	(56,094)	–
– Investment income from single asset management investments	(7,153)	–
– Impairment losses on financial assets and contract assets	8,948	–
– Losses from disposal of property, plant and equipment	15	–
– Exchange differences	<u>42,530</u>	<u>–</u>
	<u>384,077</u>	<u>361,663</u>
Changes in working capital:		
– Increase in trade and other receivables	(410,905)	(94,655)
– (Decrease)/increase in inventories	9,556	(4,559)
– Increase in amounts due from customers for construction contracts	(79,296)	(45,674)
– Increase in receivables under service concession arrangements	(427,492)	(58,413)
– Decrease in deferred revenue relating to research and development activities	(144)	(20)
– (Decrease)/increase in trade and other payables	(24,193)	115,004
– Increase in contract liabilities	<u>4,288</u>	<u>–</u>
Net cash (used in)/generated from operations	<u>(544,109)</u>	<u>273,346</u>

32 COMMITMENTS

(i) Commitments under operating lease

The Group as lessor

The Group leases its investment properties under operating leases with an average lease term of five years. The total future minimum lease receivables under non-cancellable operating leases are as follows.

	Unaudited	Audited
	30 June 2020	31 December 2019
	RMB'000	RMB'000
Within one year	3,813	–
One to two years	3,813	–
Two to five years	<u>8,265</u>	<u>–</u>

32 COMMITMENTS (Continued)

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Property, plant and equipment	<u>26,478</u>	<u>28,609</u>

33 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 the State-owned Assets Supervision and Administration Commission of the Kunming People's Government* (昆明市人民政府國有資產監督管理委員會) ("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 2020 and 2019, and balances arising from related party transactions as at 30 June 2020 and 31 December 2019.

33 RELATED PARTY TRANSACTIONS (Continued)

(a) Name and relationship with related parties

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

(b) Transactions with related parties

Save as disclosed elsewhere in this announcement, during the six months ended 30 June 2020 and 2019, the Group had the following significant transactions with related parties.

(i) Loans granted to related parties:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Kunming Bus	300,000	300,000
Xindu Investment	–	400,000
Kunming DIG	350,000	300,000
	<u>650,000</u>	<u>1,000,000</u>

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

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

(ii) Loans repaid from related parties:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Kunming Bus	300,000	–
Xindu Investment	400,000	–
Kunming DIG	300,000	–
	<u>1,000,000</u>	<u>–</u>

(iii) Interest income from related parties:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Kunming Bus	10,915	4,943
Xindu Investment	1,461	12,639
Kunming DIG	9,285	4,877
	<u>21,661</u>	<u>22,459</u>

(iv) Management services provided to related parties:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
KDI	<u>55,698</u>	<u>33,180</u>

(v) Commission charged by related parties:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Kunming CGE	3,522	3,428
Kunming Qingyuan	527	358
	<u>4,049</u>	<u>3,786</u>

33 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and bonuses	772	761
Contributions to pension plans	188	121
Housing fund, medical insurance and other social insurance	145	218
	<u>1,105</u>	<u>1,100</u>

(d) Balances with related parties

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

	Unaudited	Audited
	30 June 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Kunming Bus	300,732	300,527
KDI	155,099	91,296
Xindu Investment	23,967	424,669
Kunming CGE	21,730	22,276
Kunming Qingyuan	8,238	9,976
Kunming DIG	350,702	300,458
Kunming Dianchi Project Management	168	168
Kunming Dianchi Asset Operation	179	–
	<u>860,815</u>	<u>1,149,370</u>

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

33 RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with related parties (Continued)

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
<i>Acquisition of property, plant and equipment:</i>		
Xindu Investment	<u>16,040</u>	<u>16,040</u>
<i>Acquisition of land use rights:</i>		
KDI	27,194	27,194
Xindu Investment	<u>31,000</u>	<u>31,000</u>
<i>Others:</i>		
KDI	11,382	13,369
Kunming CGE	861	876
Kunming Qingyuan	263	161
Kunming Dianchi Project Management	<u>229</u>	<u>229</u>
	<u>86,969</u>	<u>88,869</u>

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

In the first half of 2020, under the influence of the global outbreak of the novel coronavirus pneumonia epidemic, de-globalization and trade protectionism, the world economy was in recession. In the face of complicated development environment and the prevention and control of the epidemic domestically, the country adopted a series of policies to stimulate economic development, such as increasing fiscal deficit, issuing special treasury bonds, increasing the scale of local government special bonds, guiding down interest rates of the loan market and reducing taxes and fees for smoothing domestic circulation which played a positive role in the stable development of the industry. Since the 18th National Congress of the Communist Party of the People's Republic of China, the construction of ecological civilization has been elevated to a national strategic level and the concept of ecological and environmental management has also transition from passive, extensive and fragmented end-of-site facilities emissions compliance management to an active, refined and systematic "mountains, rivers, forests, fields, lakes and grasses life co-governance". The governance approach has been shifting from relying on individual technologies and engineering to solve individual pollution problems to whole life cycle management, whole chain design, whole system optimization and cross-media pollution control. The year of 2020 is the closing year to achieve the "Water Ten Measures" phased work goals and the "13th Five-Year Plan". The new trend of the integration of the whole river basin-wide protection and management, the accelerated development of the wastewater treatment industry, the integration and innovation of biotechnology, information control and other industries, the formation of a large-scale pattern of environmental monitoring and surveillance, the "three water co-management" of water pollution control, water ecological restoration and water resources protection will further broaden the room of high-quality development of the industry. Following the introduction of the "Master Plan of National Significant Ecosystem Protection and Restoration of Major Projects (2021-2035)" (《全國重要生態系統保護和修復重大工程總體規劃(2021-2035年)》) and speeding up improvement of the Yangtze River Economic Zone wastewater treatment charging mechanism and other policies, they will inject new vitality into the healthy, sustainable and high-quality development of the industry.

The Company is positioned as an internationally-operated comprehensive service provider of ecological and environmental protection and management and is a leading enterprise in the municipal wastewater treatment and reclaimed water supply service industry in Yunnan Province, PRC, enjoying exclusive rights to provide wastewater treatment services to Kunming and other regions of China. We will seize the policy dividends of marketization of the environmental protection industry and continue to adhere to the development concept of "unitary domination with diversified development" to expand our core business of wastewater treatment and actively carry out industrial mergers and acquisitions to further extend the entire industry chain in the upstream water source protection, running water supply, downstream high quality reclaimed water supply, comprehensive river basin management, utilization of sludge resources, mine restoration and derived solid waste disposal. At the same time, we will continue to explore the endogenous power and stimulate the Company's potential in technological innovation, talent team building and improvement of quality and efficiency of the management, etc., so as to make positive contributions to the development of the national ecological environment and continue to inject energy into the sustainable and high quality development of the Company.

1. Overview of Wastewater Treatment Industry

Water resources of China are characterized by a shortage of per capita resources, uneven distribution and serious water pollution. According to the national target of the “13th Five-Year Plan of the National Urban Wastewater Treatment and Recycling Facilities Construction Plan” (《“十三五”全國城鎮污水處理及再生利用設施建設規劃》), by the end of 2020, complete coverage of urban wastewater treatment facilities will be achieved, of which urban wastewater treatment rate will reach 95% and the scale of newly added wastewater treatment facilities will be 50.22 million m³/day. The formation of a large-scale environmental protection regulatory framework and the future upgrade and transformation of stock assets in the wastewater treatment industry will continue to release market space. As an important part of the environmental protection industry, the wastewater treatment industry is one of the key tasks of the national, provincial and municipal governments in pollution control. In 2019, Yunnan Province issued the “Implementation of the Three-year Action Plan for Improving the Quality and Efficiency of Urban Wastewater Treatment in Yunnan Province (2019-2021)” (《雲南省城鎮污水處理提質增效三年行動實施方案(2019-2021年)》) which pointed out that the improvement of water environment quality acted as the core to implement systematic restoration and protection of the Yangtze River’s ecological environment. The protection and management of nine plateau lakes acted as the focus and as the main target to systematically enhance the efficiency of urban domestic wastewater collection and strive to make up for the shortcomings in wastewater pipe networks and other facilities construction in urban villages, old urban areas and urban-rural junctions in order to expeditiously achieve the goal of full coverage of wastewater pipe network, full collection and full treatment to lay a solid foundation. Under the guidance of the national strategies, supporting policies and the promotion of safeguard measures by local governments, the rapid and high-quality development of the wastewater treatment industry will become the trend of future development.

2. Overview of Reclaimed Water Industry

Reclaimed water is the city’s second source of water. Nowadays, when water demand continues to increase but water resources are gradually decreasing, reclaimed water plays an increasingly important role in improving the comprehensive utilization of water resources, improving the quality of urban residential water environment and supporting the sustainable and healthy development of social economy. Promoting the use of reclaimed water is an important measure to implement the requirements of the 19th National Congress of the Communist Party of China to “promote comprehensive resources conservation and recycling and implement national water conservation actions”, as well as to implement the policy of “prioritizing water conservation, spatial balance, systematic management and two-handed effort” put forward by General Secretary Xi Jinping. The important measures of water control policies are major ways to promote urban water conservation and emission reduction to ensure sustainable use of water resources. It is expected that China’s total production capacity of reclaimed water will reach 41.6 million m³/day by 2020.

3. Overview of Municipal Water Supply Industry

Following the continuous development of urbanization and industrialization, the municipal water supply business in first-tier cities of China will be inclined to develop steadily. For the central and western provinces where developments are relatively delayed, the shift of manufacturing industries to the central and western provinces and the acceleration of urbanization in these areas are expected to drive the growth of urban population and gross domestic product (GDP), which will in turn increase the demand for municipal water supply. The government attaches great importance to the development of running water supply in western China. The progress of urbanization in China and the promotion of environmental protection industry policies are expected to bring huge market opportunities and development potential for the municipal water supply industry in the future.

II. DEVELOPMENT STRATEGY AND PROSPECTS

Since the 18th National Congress of the Communist Party of China incorporated the construction of ecological civilization into the five-in-one national overall layout, “Green Water and Green Mountains are Golden and Silver mountains” has become the consensus among the people of China. In recent years, the development of the Yangtze River Economic Zone, the ecological protection and high-quality development of the Yellow River Basin have become major national strategies, driving further development of the environmental protection industry and related industry chains. Meanwhile, with an in-depth advancement of the Belt and Road Initiative, more room for international cooperation has been released for the development of countries along the route and sustainable growth of the environmental protection industry will remain a development trend in the future.

In the future, the Company will further expand the service scope of wastewater treatment business while strengthening the steady growth of reclaimed water and running water supply businesses. The novel coronavirus pneumonia epidemic in 2020 has further generated the release of mergers and acquisition opportunities in the industry. The Company will increase project investments and equity mergers and acquisitions with valuable contributions in a timely and appropriate manner. At present, the ecological environmental management has been transformed to the life co-governance of “landscapes, forests, fields, lakes and grasses”. In the face of more stringent requirements for environmental management, the Company will continue to promote diversified development directions, continue to track technological innovation and breakthroughs in related areas such as wastewater treatment’s quality and efficiency improvement and intelligent water affairs and continue to optimize and expand the utilization of sludge resources, mine rehabilitation and derived solid waste disposal as well as other businesses to promote the synergistic development of the Company’s related businesses. On the other hand, the Company will continue to work diligently to enhance management efficiency and release vitality of the Company through refinement, standardization and information construction as well as continue to promote the leading role of scientific and technological innovation in the Company to further enhance the Company’s technological advantages. Meanwhile, the Company will accelerate the construction of the talent team, innovate financing methods and control financing costs so as to provide talent guarantee and capital guarantee for further development of the Company’s business, promote rapid development of the Company’s business comprehensively and effectively and bring sustainable returns to the 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 2020, our TOO projects contributed to 50.4% of our total revenue. Our TOT projects contributed to 8.6% of our total revenue and our BOT projects contributed to 13.8% 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 2020, we had a total of 48 plants under concession agreements, of which 41 plants were in operation and 7 plants were under construction. Among such 41 plants in operation, 14 were TOO projects, 21 were TOT projects, 4 were BOT projects and 2 were BOO projects.

Wastewater Treatment Projects

As of 30 June 2020, we had a total of 35 wastewater treatment plants in operation (including 14 in Kunming and 21 in other areas of China), with a total wastewater treatment capacity of 1.9 million m³. We also had 5 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 0.5 million m³. 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 2020, 93% of our designed wastewater treatment capacity reached the National Class I Category A standard.

During the Reporting Period, we continued to promote the development and expansion of our business. On 2 June 2020, the Company signed an agreement in relation to the acquisition of 100% equity interest in Kunming Dongchuan Guozhen Sewage Treatment Co., Ltd. (昆明市東川區國禎污水處理有限公司) and a project agreement was signed with the local government for the Advanced Treatment Unit TOT Project of the Dongchuan District Sewage Treatment Plant in Kunming City, pursuant to which a 30-year concession was obtained for the Dongchuan District Sewage Treatment Plant and Advanced Treatment Unit Project.

Reclaimed Water Business

For our reclaimed water business, as of 30 June 2020, we had 9 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 63,000 m³. 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. At present, we have entered into a “Kunming Reclaimed Water Concession Service Agreement” (《昆明市再生水特許經營服務協議》) with the Kunming Municipal Water Affairs Bureau and have been granted the right to carry out reclaimed water utilization concession services within the urban planning areas of Wuhua, Panlong, Xishan, Guandu and Dianchi tourist resorts in Kunming and within the administrative boundaries of Kunming in accordance with the planning requirements in relation to the utilization of reclaimed water in Kunming in the future. At the same time, we have also commenced cooperation projects on the utilization of reclaimed water and rainwater resources in various cities in Yunnan Province.

Running Water Business

For our running water business, as of 30 June 2020, we had 6 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, such as carrying out the construction of running water plant projects and water supply business in various areas of Yunnan Province.

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended 30 June 2019, our revenue amounted to RMB712.0 million, and increased by 11.6% to RMB794.5 million for the six months ended 30 June 2020; our gross profit for the six months ended 30 June 2019 were RMB280.5 million and increased by 8.8% to RMB305.1 million for the six months ended 30 June 2020. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water supply, running water supply services and other services accounted for 67.6%, 7.7% and 24.7% 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)	
	2020	2019
	RMB'000	RMB'000
Revenue	794,516	711,998
Cost of sales	<u>(489,386)</u>	<u>(431,510)</u>
Gross profit	305,130	280,488
Selling expenses	(6,515)	(5,542)
Administrative expenses	(59,062)	(42,138)
Research and development expenses	(2,449)	(45)
Net impairment losses on financial and contract assets	(8,948)	(6,212)
Other income	80,590	23,338
Other losses – net	<u>(13)</u>	<u>(82)</u>
Operating profit	<u>308,733</u>	<u>249,807</u>
Finance income	22,541	28,526
Finance costs	<u>(134,331)</u>	<u>(95,438)</u>
Finance costs – net	<u>(111,790)</u>	<u>(66,912)</u>
Share of results of associates	<u>(56)</u>	<u>(5)</u>
Profit before income tax	196,887	182,890
Income tax expense	<u>(36,298)</u>	<u>(32,623)</u>
Profit for the period	<u>160,589</u>	<u>150,267</u>
Other comprehensive income/(loss) for the period	<u>796</u>	<u>89</u>
Total comprehensive income for the period	<u><u>161,385</u></u>	<u><u>150,356</u></u>

(a) **Revenue**

During the Reporting Period, our revenue amounted to approximately RMB794.5 million, an increase of RMB82.5 million or 11.6% as compared to approximately RMB712.0 million for the same period last year, primarily because:

Our revenue from wastewater treatment business increased by RMB49.4 million or 10.1% from RMB487.9 million for the six months ended 30 June 2019 to RMB537.3 million for the six months ended 30 June 2020. Construction revenue increased by approximately RMB29.4 million due to the continuous construction of the Zhaotong Central City No. 2 Wastewater Treatment Plant Project, Fanchang County No. 2 Wastewater Treatment Plant Project and the Phase II reconstruction and expansion of Shidian County Wastewater Treatment Plant. During the Reporting Period, finance income from concessions increased by RMB26.4 million due to the addition of the Luquan Wastewater Treatment Plant Project, the commencement of commercial operation of the Zhaotong Central City No. 1 Wastewater Treatment Plant Project and the normal progress of the existing projects.

Our revenue from other water service segments decreased by RMB38.4 million or 38.6% from RMB99.4 million for the six months ended 30 June 2019 to RMB61.0 million for the six months ended 30 June 2020, primarily due to, during the Reporting Period, the decrease in construction investment for the projects of reclaimed water utilization and greening improvement of Xundian County Park and part of the roads and pipeline network supporting project of Shuangjiang Second Water Treatment Plant, etc., the construction revenue decreased by approximately RMB48.0 million. Due to the normal progress of the original projects of Yiliang Shuanghe Reservoir and the projects of reclaimed water utilization and greening improvement of Xundian County Park and part of the roads, etc., the concession finance income increased by approximately RMB15.1 million.

Our revenue from other segments increased by RMB71.5 million or 57.3% from RMB124.7 million for the six months ended 30 June 2019 to RMB196.2 million for the six months ended 30 June 2020, primarily because during the Reporting Period, the Yiliang Jiuxiang Tourism Yijiu Road Reconstruction and Expansion Project and other projects continued to be constructed, so that construction revenue increased to RMB50.8 million. During the Reporting Period, due to the addition of the No. 3 water purification plant super-restricted phosphorus removal, the No. 13 water purification plant commissioned management service business, the original super-restricted phosphorus removal commissioned operation business, and the increase in business volume such as commissioned construction business of the subsidiary Yunnan Reclaimed Water Industry Co., Ltd.* (雲南中水工業有限公司) (“**Yunnan Reclaimed Water**”), management service income increased by approximately RMB40.4 million. Since the business volume of the subsidiary Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司) (“**Hongyu Thermal Power**”) decreased, thermal power service revenue decreased by RMB20.7 million.

(b) Cost of sales

During the Reporting Period, our cost of sales amounted to approximately RMB489.4 million, representing an increase of 13.4% as compared to approximately RMB431.5 million for the same period last year, primarily due to an increase in operating costs, construction costs and other segment construction costs for the wastewater treatment segment during the Reporting Period. Details are as follows:

Our cost of sales of the wastewater treatment segment increased by RMB35.2 million or 13.9% from RMB252.4 million for the six months ended 30 June 2019 to RMB287.6 million for the six months ended 30 June 2020, primarily due to the continuous construction of the Fanchang County No. 2 Wastewater Treatment Plant Project and the second phase of the renovation and expansion project of the Shidian County Wastewater Treatment Plant, construction cost increased approximately RMB22.1 million while the cost of electricity and sludge disposal costs increased during the current period.

The cost of sales of our other water services segment decreased from RMB96.9 million for the six months ended 30 June 2019 to RMB37.7 million for the six months ended 30 June 2020, representing a decrease of RMB59.2 million, or 61.1%, primarily due to the decrease in the construction cost of the Company's running water business. Based on the percentage of completion method, the construction costs of the reclaimed water utilization and greening improvement project of the Xundian County Park and some of the roads and the supporting pipeline network project of the Shuangjiang Second Water Treatment Plant decreased by approximately RMB46.0 million.

Our cost of sales from other segments increased by RMB81.9 million or 99.6% from RMB82.2 million for the six months ended 30 June 2019 to RMB164.1 million for the six months ended 30 June 2020, primarily due to, during the Reporting Period, there was an increase of RMB53.0 million in construction costs due to the continued construction of the Yiliang Jiuxiang Tourism Yijiu Road Reconstruction and Expansion Project, an increase of RMB7.6 million in management service costs due to the addition of the super-restricted phosphorus removal of the No.3 Water Purification Plant and the entrustment of the No.13 Water Purification Plant during the Reporting Period, the growth in business volume of the existing management services and an increase in the cost of management services.

(c) Gross Margin

During the Reporting Period, our gross margin was approximately 38.4%, representing a decrease of 1.0% as compared to 39.4% for the same period last year, primarily due to an increase in the gross profit margin of other water services segments which was offset by the decrease in the gross profit margin of the wastewater service segment and other segments.

Our gross profit of the wastewater treatment segment increased by RMB14.2 million or 6.0% from RMB235.5 million for the six months ended 30 June 2019 to RMB249.7 million for the six months ended 30 June 2020. Our wastewater treatment segment gross margin decreased from 48.3% for the six months ended 30 June 2019 to 46.5% for the six months ended 30 June 2020, primarily due to, during the current period, an increase in construction investment of the wastewater treatment projects and the lower construction gross profit during the construction phase.

Our gross profit from other water service segments increased by RMB20.7 million or 828.0% from RMB2.5 million for the six months ended 30 June 2019 to RMB23.2 million for the six months ended 30 June 2020. Our other water service segment gross margin increased from 2.5% for the six months ended 30 June 2019 to 38.1% for the six months ended 30 June 2020, primarily because since the Yiliang Shuanghe Reservoir concession project, reclaimed water utilization and greening upgrading projects of the Xundian County parks and some of the roads have entered the buy-back period, and the settlement price of Shidian No. 2 Running Water Plant has increased.

Our gross profit from other segments decreased by RMB10.2 million or 24.1% from RMB42.4 million for the six months ended 30 June 2019 to RMB32.2 million for the six months ended 30 June 2020. Our gross margin of other segments decreased from 34.0% for the six months ended 30 June 2019 to 16.4% for the six months ended 30 June 2020 primarily because during the Reporting Period, newly added projects such as the reconstruction and expansion project of Yijiu Road, Jiuxiang Tourist Town, Yiliang County increased construction investment, while the construction margin at the construction stage was lower. Hongyu Thermal Power was affected by the epidemic and the gross profit margin of thermal power supply service was low, resulting in a decrease in overall gross profit margin and a decrease in gross profit margin of thermal power supply service. Due to the decrease in business volume of steam supply of Zhuji Dongda Ciwu Water Treatment Co., Ltd. (諸暨市東大次塢污水處理有限公司), the gross profit margin of steam supply services decreased.

(d) Selling expenses

During the Reporting Period, our selling expenses amounted to approximately RMB6.5 million, an increase of RMB1.0 million or 18.2% as compared to approximately RMB5.5 million for the same period last year, primarily due to an increase in commission charge and transportation cost.

(e) Administrative expenses

During the Reporting Period, our administrative expenses amounted to approximately RMB59.1 million, an increase of 40.4% as compared to approximately RMB42.1 million for the same period last year, mainly because employee benefit expenses increased by RMB8.0 million over the previous period.

(f) Other losses – net

During the Reporting Period, our other losses – net amounted to RMB0.01 million, a decrease of RMB0.09 million as compared with approximately RMB0.1 million for the same period last year, mainly due to a decrease of compensation for flooding losses by RMB0.04 million and a decrease of RMB0.01 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 RMB308.7 million, an increase of RMB58.9 million or 23.6% as compared to approximately RMB249.8 million for the same period last year. Our operating margin during the Reporting Period was 38.9%.

(h) Finance income

During the Reporting Period, our finance income amounted to approximately RMB22.5 million, a decrease of 21.1% as compared to approximately RMB28.5 million for the same period last year. The main reason was that the interest income of related party loans decreased by RMB0.8 million during the current period and the interest income generated from construction contracts decreased by RMB5.4 million.

(i) Finance costs

During the Reporting Period, our finance costs amounted to approximately RMB134.3 million, an increase of 40.8% as compared to approximately RMB95.4 million for the same period last year, primarily because of an increase in borrowings during the period and interest expenses on borrowings increased by RMB37.2 million due to the increase in average interest rates. At the same time, exchange losses increased by RMB10.5 million due to the depreciation of Renminbi.

(j) Profit before income tax

During the Reporting Period, our profit before income tax amounted to approximately RMB196.9 million, as compared to approximately RMB182.9 million for the same period last year, representing an increase of RMB14.0 million or 7.7%.

(k) Income tax

During the Reporting Period, our net income tax expense amounted to approximately RMB36.3 million, an increase of 11.3% as compared to RMB32.6 million for the same period last year. The effective tax rate was 18.4%, an increase of 0.6 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%.

(1) Total comprehensive income

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to approximately RMB161.4 million, increased by 7.3% as compared to RMB150.4 million for the same period last year.

2. Liquidity and Capital Resources

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

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

	For the six months ended 30 June	
	(Unaudited)	
	2020	2019
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(686,332)	169,924
Net cash generated from/(used in) investing activities	315,278	(892,175)
Net cash generated from financing activities	444,079	1,598,158
Net increase in cash and cash equivalents	73,025	875,907
Foreign exchange gains/(losses)	17,560	(17,988)
Cash and cash equivalents at beginning of the period	1,290,199	1,079,714
Cash and cash equivalents at end of the period	1,380,784	1,937,633

(a) Net cash (used in)/generated from 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 RMB-686.3 million, decreased by RMB856.2 million as compared to RMB169.9 million for the same period last year, which was primarily due to the decrease in cash received from customers for the provision of services and products during the current period compared to the same period in 2019 and the increase in cash invested to obtain concession projects compared to the same period in 2019.

(b) Net cash generated from/(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, and to provide loans to related parties.

Our net cash used in investing activities increased from RMB-892.2 million for the six months ended 30 June 2019 to RMB315.3 million for the six months ended 30 June 2020, primarily because RMB350.0 million of entrusted loans provided to related parties were recovered during the current period.

(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 RMB1,598.2 million for the six months ended 30 June 2019 and net cash generated from financing activities of RMB444.1 million for the six months ended 30 June 2020, primarily comprising loans of approximately RMB1,015.0 million which were partially offset by the repayments of borrowings of RMB628.7 million. The difference between net cash from financing activities for the six months ended 30 June 2020 and the six months ended 30 June 2019 was mainly due to the decrease in borrowings obtained during the Reporting Period as compared to the same period last year.

The H Shares of the Company were listed on the Stock Exchange on 6 April 2017 and the Company issued 339,430,000 H Shares of par value of RMB1.00 per share with the Offer Price of HK\$3.91 per H Share. The total issuance size (before deducting the expenses) amounted to approximately HK\$1,327,171,300. Following the Listing of H Shares of the Company, a total of 593,000 shares of H Shares were over-allocated. After deducting (i) the net proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering; and (ii) the underwriting commissions and other expenses relating to the Global Offering, the Company received net cash proceeds of RMB1,072.3 million from the Global Offering.

As of 30 June 2020, approximately RMB789.0 million, accounting for 73.6% of RMB1,072.3 million of net proceeds from the Initial Public Offering, has been used in accordance with the use as stated in the paragraph headed “Future Plans and Use of Proceeds” in the Prospectus. The use of proceeds is as follows:

Business strategies as stated in the Prospectus	Percentage of total net proceeds from the Initial Public Offering (as set out in the Prospectus)	Planned use of net proceeds from the Initial Public Offering (as set out in the Prospectus) <i>RMB million</i>	Actual use of net proceeds from the Initial Public Offering for the period from 1 January 2020 to 30 June 2020 <i>RMB million</i>	Actual use of net proceeds from the Initial Public Offering for the period from the Listing Date to 30 June 2020 <i>RMB million</i>	Unused net proceeds from the Initial Public Offering <i>RMB million</i>
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	–	235.0	140.3
To acquire TOT/TOO wastewater treatment plants and running water supply projects	35%	375.3	–	289.7	85.6
Repayment of bank borrowings	20%	214.5	–	212.9	1.6
To supplement working capital and for general corporate purposes	10%	107.2	–	51.4	55.8
Total	100%	1,072.3	–	789.0	283.3

As of 30 June 2020, the unused net proceeds from the Initial Public Offering for each of the business strategies as stated in the above table have been placed as deposits in licensed banks of the PRC which will be used in accordance with the progress of the Company’s investment projects and are expected to be used up within 1 year (i.e. before June 2021). The business objectives, future plans and planned use of the proceeds as stated in the Prospectus were based on the best estimation and assumptions of future market conditions and industry developments made by the Company at the time of preparing the Prospectus, while the proceeds from the Initial Public Offering were used in accordance with the business of the Group and the actual development of the relevant industry.

The net proceeds from the Initial Public Offering were used and expected to be used according to the intentions previously disclosed in the Prospectus.

As of 30 June 2020, there was no material change or material delay in the use of proceeds of the Company.

3. Working Capital

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	12,658	7,548
Inventories	13,080	22,636
Amounts due from customers for construction contracts	21,780	27,578
Trade and other receivables	2,278,323	2,225,415
Financial assets measured at fair value through profit or loss	286,107	246,327
Cash and cash equivalents	1,380,784	1,290,199
Restricted cash	7,972	67,966
Total current assets	4,000,704	3,887,669
Current liabilities		
Trade and other payables	591,293	486,848
Income tax payables	68,237	75,273
Borrowings	1,084,446	701,320
Lease liability	3,287	3,786
Contract liabilities	11,526	7,238
Total current liabilities	1,758,789	1,274,465
Net current assets	2,241,915	2,613,204

Our net current assets decreased from net current assets of RMB2,613.2 million as of 31 December 2019 to net current assets of RMB2,241.9 million for the six months ended 30 June 2020, primarily due to an increase in unsecured short-term loans and long-term loans due within one year during the current period.

(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 RMB12.7 million as at 30 June 2020, representing an increase of 69.3% from RMB7.5 million as at 31 December 2019, mainly due to an increase in the amount to be recovered in the coming year as per the progress of contract collection.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB1,786.6 million as at 30 June 2020, representing an increase of 29.3% from RMB1,382.0 million as at 31 December 2019, mainly because Zhaotong Central City No. 1 and No. 2 Wastewater Treatment Plant Projects and Kunming Jinning District Water Environment Comprehensive Treatment and Reclaimed Water Ecological Replenishment Project increased construction investment and the original projects were proceeding normally.

(b) *Inventories*

Our total inventory balance decreased from RMB22.6 million as of 31 December 2019 to RMB13.1 million as of 30 June 2020, representing a decrease of RMB9.5 million or 42.0%, primarily due to a decrease in inventory of Hongyu Thermal Power amounted to RMB8.5 million.

For the six months ended 30 June 2020, our inventory turnover days were 6.6 days, an increase of 1.2 days as compared to the year ended 31 December 2019. 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 total average inventory.

(c) Amounts due from customers for construction contracts

As of 30 June 2020, our amounts due from customers for construction contracts were approximately RMB622.6 million, increased by RMB78.8 million as compared to RMB543.8 million as of 31 December 2019, primarily due to the demonstration city construction project for treatment of urban black and odorous water quality in Zhaotong City, new construction investment of reconstruction and expansion project of Luyou Yijiu Road, Jiuxiang, Yiliang and 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 construction costs and electricity.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Trade receivables:		
– Third parties	65,933	80,165
– Related parties	184,866	123,168
– Local government	1,118,764	780,419
– Loss allowance	(22,218)	(16,294)
	<u>1,347,345</u>	<u>967,458</u>
Trade receivables – net		
	<u>1,347,345</u>	<u>967,458</u>
Other receivables:		
– Third parties	66,203	57,597
– Related parties	675,949	1,026,202
– Local government	71,593	47,057
– Loss allowance	(5,506)	(3,472)
	<u>808,239</u>	<u>1,127,384</u>
Other receivables – net		
	<u>808,239</u>	<u>1,127,384</u>
Prepayments:		
– Local government	–	3,587
– Others	122,743	126,990
– Impairment of assets	(4)	(4)
	<u>122,739</u>	<u>130,573</u>
Prepayments – net		
	<u>122,739</u>	<u>130,573</u>
Trade and other receivables – net		
	<u>2,278,323</u>	<u>2,225,415</u>

As of 30 June 2020, our net trade and other receivables was approximately RMB2,278.3 million, increased by RMB52.9 million or 2.4% as compared to approximately RMB2,225.4 million as of 31 December 2019, primarily due to the decrease in cash received from customers for provision of services and products during the current period.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
– Within one year	964,696	935,027
– Over one year and within two years	390,148	37,300
– Over two years	14,719	11,425
	<u>1,369,563</u>	<u>983,752</u>

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	Days	Days
Trade receivables turnover days ⁽¹⁾	262.2	155.4
Trade and other receivables turnover days ⁽²⁾	510.2	315.3

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 2020 and the year ended 31 December 2019.
- (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 2020 and the year ended 31 December 2019.

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	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Trade payables	187,311	150,971
Other payables	124,023	146,012
Consideration unpaid for acquisition of subsidiaries	20,958	21,209
Staff salaries and welfare payables	24,103	42,285
Payables on acquisition of property, plant and equipment	32,907	46,207
Payables on acquisition of land use rights from related parties	58,194	58,194
Interest payables	3,570	4,586
Accrued taxes other than income tax	11,588	17,384
Dividend payables	128,639	–
	591,293	486,848

As of 30 June 2020, our trade and other payables amounted to approximately RMB591.3 million, representing an increase of RMB104.5 million or 21.5% as compared to approximately RMB486.8 million as of 31 December 2019. The increase was primarily due to: (i) the provision of dividend payables of RMB128.6 million as of 30 June 2020;

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
– Within one year	174,337	137,309
– Over one year and within two years	12,974	13,662
	<u>187,311</u>	<u>150,971</u>

As at 30 June 2020 and 31 December 2019, 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:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2020	2019
	Days	Days
Trade payables turnover days ⁽¹⁾	98.1	106.8
Trade and other payables turnover days ⁽²⁾	198.3	132.2

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 2020 and the year ended 31 December 2019.
- (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 2020 and the year ended 31 December 2019.

Our directors confirm that up to 30 June 2020, 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 2020 RMB'000	Audited As at 31 December 2019 RMB'000
Non-current:		
Unsecured long-term borrowings	405,000	340,000
Secured long-term borrowings	2,809,004	2,828,418
Corporate bonds	712,227	696,629
Total non-current borrowings	3,926,231	3,865,047
Current:		
Unsecured short-term borrowings	985,000	615,000
Secured short-term borrowings	99,446	86,320
Total current borrowings	1,084,446	701,320
Total borrowings	5,010,677	4,566,367
Average effective interest rates	6.21%	4.83%

As at 31 December 2019 and 30 June 2020, our total borrowings amounted to RMB4,566.4 million and RMB5,010.7 million, respectively. Among the indebtedness, RMB461.2 million and RMB412.4 million of borrowings as at 31 December 2019 and 30 June 2020 were secured by property, plant and equipment and RMB2,453.5 million and RMB2,496.0 million of borrowings were guaranteed by the Company. 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 2020, 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 2020, 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 2020, 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	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
On demand or within 1 year	1,084,446	701,320
Between 1 and 2 years	2,233,637	241,670
Between 2 and 5 years	1,692,594	3,623,377
More than 5 years	–	–
	<u>5,010,677</u>	<u>4,566,367</u>

As of 30 June 2020, 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 46.7%, representing an increase of 2.8 percentage points from that as of 31 December 2019, primarily due to the increase in borrowings during the period.

Except as disclosed above, as of 30 June 2020, 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	Audited
	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Property, plant and equipment	<u>26,478</u>	<u>28,609</u>

(c) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB85.4 million for the six months ended 30 June 2020, representing an increase of 1.07% as compared to RMB84.5 million for the six months ended 30 June 2019.

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Wastewater treatment	83,289	82,847
Water supply	1,529	–
Others	<u>548</u>	<u>1,700</u>
	<u>85,366</u>	<u>84,547</u>

Based on our current business plan, we expect to incur capital expenditure amounting to RMB141.1 million for the year ending 31 December 2020. 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 2020, we had 1,278 full-time employees, 2 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 2020:

Function	Number
Management and Administration	144
Finance	37
R&D	85
Quality Monitoring	209
Marketing	17
Operations	748
Construction and Maintenance	38
	<hr/>
Total	<u>1,278</u>

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 2019 amounted to RMB60.2 million, and our employee benefits and labor expenses from January to June in 2020 amounted to RMB77.1 million, representing an increase of approximately RMB16.9 million or 28.1% as compared to the same period of 2019.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we adopt a new employee internship management mechanism, a blended learning mechanism that combines centralized training and online training, on-the-job training, exchanges and rotations, follow-up learning and other talent team building systems that coexist in various talent business training methods. With the talent circulation training mechanism and other methods that take “production, learning, research and use” as the core, we take multiple measures to improve the comprehensive quality and professional ability of employees and provide talent guarantee for the Company’s business development. At the same time, we own Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校) to provide more 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 2020, the Group did not have any material contingent liability.

8. Major Investment and Acquisition

On 27 December 2019, the Company (as the asset entrustor) entered into the Asset Management Agreement with Bosera Capital Management Co., Ltd. (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited (as the asset trustee) on 27 December 2019 in relation to the investment and management of the Entrusted Assets, pursuant to which the Group agreed to entrust an amount of up to RMB400 million as the Entrusted Assets for the investment in a Single Asset Management Plan issued by Kunming Industrial Development and Investment Co., Ltd. (“**IDI**”). IDI is a wholly state-owned company, which is principally engaged in the integration of state-owned enterprise shareholding and management and operation of state-owned assets. It is an existing shareholder of the Company directly or indirectly holding 2,620,449 Domestic Shares and 59,000,000 H Shares, representing 5.99% of the total issued share capital of the Company. The investment in Single Asset Management Plan included certain accounts receivables and other non-standardised credit assets transferred from IDI. For details, please refer to the Company’s announcement dated 27 December 2019. As of 30 December 2019, the Company has allocated RMB200 million of funds. As of 30 June 2020, the asset management plan has not yet expired.

From the report of the Asset Manager, the fair value of the Single Asset Management Plan approximates the carrying amount at the end of the Reporting Period, representing 1.97% of the total assets of the Group. These investments recorded realised or unrealised gains/ (losses) of RMB7.15 million during the Reporting Period. By entering into the Asset Management Agreement and entrusting funds in accordance therewith, the Company intends to increase the rate of return of its cash and cash equivalents which can improve the Company’s investment income and profit earnings. The entering into the Asset Management Agreement may also increase the chance to cooperate with IDI in the future in the aspects such as the cooperation in the form of innovative financing, project investment and resources sharing.

Save as disclosed above, as of 30 June 2020, the Group did not have any major investment and acquisition.

9. Material Litigation

As of 30 June 2020, the Group is not involved in any material or potential litigation.

10. Exchange Rate Volatility Risk and Any Related Hedging

The Group still retains some foreign currency funds, mainly Hong Kong dollars and US dollars. The Group borrowed foreign currency loans with international syndicates from March to June 2019, with principals of USD170,000,000 and HKD1,015,000,000 respectively. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. In December 2019, the Group entered into a confirmation of RMB foreign exchange currency swap transactions with Hang Seng Bank (China) Limited (“**Hang Seng Bank**”) and the agreement fixed the exchange rate at the time of loan repayment and interest payment which was used to hedge the risk of foreign exchange fluctuations when repaying foreign currency borrowings and foreign currency interest. Details are as follows:

Hang Seng Bank pays floating interest on swap agreements and the fixed interest payer is the Group. Before the Group pays the foreign currency principal and interest of each international syndicate, Hang Seng Bank will pay the equivalent currency into the Company’s account. The Company can use the foreign currency to pay the principal and interest. At the same time, when the Company pays RMB to Hang Seng Bank, the interest rate is fixed. The nominal principal for calculating the interest is calculated by multiplying the principal in the syndicated loan agreement by the fixed exchange rate locked by the agreement, actually using a fixed cost in exchange for the foreign currency to be paid and turning unknown risks of exchange rate changes into fixed interest expense costs. For the six months ended 30 June 2020, change in fair value gains of the swap agreement was RMB39,780,006 and exchange loss from syndicated foreign currency borrowings was RMB35,465,600.

11. Loans to Certain Entities

The Company entered into the Entrusted Loan Contracts with Kunming Bus and Yunnan Branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司雲南省分行) (“**Bank of Communications**”) on 23 January 2020 and 13 February 2020 respectively, pursuant to which the Company entrusted the Bank of Communications to grant loans of RMB60 million and RMB240 million respectively 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 dated 13 February 2020. In addition, the Company provided an entrusted loan of RMB300 million to Kunming Bus in April 2019 which was repaid in January 2020.

The Company entered into an entrusted loan contract with Kunming DIG and the Bank of Communications on 2 June 2020, pursuant to which the Company entrusted the Bank of Communications to provide a RMB350 million loan to Kunming DIG, 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 dated 2 June 2020. In addition, the Company provided an entrusted loan of RMB300 million to Kunming DIG in April 2019 which was repaid in April 2020.

According to the knowledge of the Company, Kunming Bus and Kunming DIG are all controlled or held by Kunming SASAC. In addition, Kunming Bus and Kunming 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 during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code except for provision A.4.2.

Under code provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Currently, the terms for 3 years of office of the first Board and the board of supervisors of the Company have expired, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers that 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 and the continuity of the Board and the board of supervisors 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 Corporate Governance 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 2020.

VI. AUDIT COMMITTEE

The Audit Committee of the Company consists of three independent Directors, namely Yin Xiaobing, He Xifeng and Sin Lik Man. The Audit Committee of the Company is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company to ensure the effective supervision of management by the Board and further improve corporate governance structure. The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2020 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VII. 2019 FINAL DIVIDEND AND 2020 INTERIM DIVIDEND

As approved by the annual general meeting held on 19 June 2020, the Company determined to distribute the final dividend for the year ended 31 December 2019 to all Shareholders of RMB0.125 (tax inclusive) per share, amounting to approximately RMB128,638,875.00 (tax included). The declaration of the final dividend is not reflected in the dividend payable in the consolidated financial statements for the year ended 31 December 2019 but will be disclosed in the dividend distribution of the consolidated financial statements for the six months period ended 30 June 2020. The final dividend has been distributed to Shareholders on 6 August 2020 in cash dividends.

The Board proposes to distribute an interim cash dividend for the six months ended 30 June 2020 (the “**2020 Interim Dividend**”) of RMB0.054 per share (tax inclusive), totaling RMB55,571,994.00 (tax inclusive) to all Shareholders whose names appear on the Company’s registers of Shareholders of Domestic Shares and H Shares as at Tuesday, 17 November 2020. The dividend of domestic shareholders shall be declared and paid in RMB while the dividend of H shareholders shall be declared in RMB but paid in Hong Kong dollars, with the exchange rate being subject to the average exchange rate published by the People’s Bank of China within one week prior to the 2020 first extraordinary general meeting (the “**2020 First Extraordinary General Meeting**”) to be held by the Company. The expected dividend distribution date is Thursday, 24 December 2020 (for the six months period ended 30 June 2019: Nil).

The proposal regarding the distribution of 2020 Interim Dividend shall be confirmed subject to the approval by Shareholders at the 2020 First Extraordinary General Meeting.

According to the provisions of the “Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas H-share Holders (Non-resident Enterprise Shareholders) from Chinese Resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》)” (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, an enterprise income tax at the rate of 10% shall be levied on dividends paid in or after 2008 by Chinese resident enterprises to overseas H shareholders that are non-resident enterprises. Any shares registered in the name of the non-individual registered Shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by nonresident enterprise Shareholders and therefore will be subject to the withholding of the enterprise income tax. If H shareholders intend to change its Shareholder status, please enquire about the relevant procedures with your agents or transferee agent. The Company will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax and individual income tax on behalf of the relevant Shareholders based on the register of members for H Shares of the Company as at the dividend registration date. The Company assumes no responsibility and will not entertain any claims arising from any failure to timely determine, or inaccurate determination of, the status of the Shareholders or any dispute over the arrangement of withholding and paying enterprise tax and individual income tax on behalf of such Shareholders. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the H Shares of the Company.

If the individual H shareholders who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. Should the individual H shareholders are residents of the countries which had an agreed tax rate of less than 10% with China under the relevant tax treaties, the Company shall withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. If the relevant individual H shareholders wish to apply for a refund of the additional amount of tax withheld and paid, the Company can assist the relevant H shareholders to handle the application for the underlying preferential tax benefits pursuant to tax treaties. If the individual H shareholders who are residents of the countries which had an agreed tax rate of higher than 10% but lower than 20% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at the actual rate specified under relevant tax treaties. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with China under the tax treaties, or which has not entered into any tax treaties with China, or otherwise, the Company shall withhold and pay the individual income tax on behalf of the relevant H shareholders at a rate of 20%.

VIII. CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders who are entitled to attend the 2020 First Extraordinary General Meeting and to receive the 2020 Interim Dividend (if approved by Shareholders), the register of members for H shares will be closed by the Company during the following periods:

- (i) To determine the list of H Shareholders who are qualified to attend the 2020 First Extraordinary General Meeting:

Latest time for lodging the H shares transfer documents: 4:30 pm on 6 October 2020 (Tuesday)

Date of closure of register of members for H Shares: From 7 October 2020 (Wednesday) to and until 6 November 2020 (Friday) (both days inclusive)

Record Date: 6 November 2020 (Friday)

Date for convening the 2020 First Extraordinary General Meeting: 6 November 2020 (Friday)

- (ii) Subject to the passing of the proposal of distribution of the 2020 Interim Dividend at the 2020 First Extraordinary General Meeting, for determining the list of H Shareholders who are entitled to the 2020 Interim Dividend:

Latest time for lodging the H shares transfer documents: 4:30 pm on 11 November 2020 (Wednesday)

Date of closure of register of members for H Shares: From 12 November 2020 (Thursday) to and until 17 November 2020 (Tuesday) (both days inclusive)

Dividend Entitlement Date: 17 November 2020 (Tuesday)

For purposes mentioned above, all properly completed share transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

IX. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended 30 June 2020 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 the Stock Exchange (<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, 21 August 2020

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

* *For identification purpose only*