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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)

2021 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2021, the Group's:

- revenue amounted to approximately RMB892.4 million, representing an increase of 12.3% from the corresponding period of last year;
- profit before tax amounted to approximately RMB202.9 million, representing an increase of 3.0% from the corresponding period of last year;
- net profit attributable to the equity holders of the Company amounted to approximately RMB167.0 million, representing an increase of 4.6% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.16, representing steady performance from the corresponding period of last year.

The Board proposes to distribute an interim cash dividend for the six months ended 30 June 2021 of RMB0.05 per share (tax inclusive), totaling RMB51,455,550.00 (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, 23 November 2021. The expected dividend distribution date is Wednesday, 29 December 2021.

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 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2020, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Continuing operations			
Revenue	6	892,416	794,516
Cost of sales	26	<u>(558,167)</u>	<u>(489,386)</u>
Gross profit		334,249	305,130
Selling expenses	26	(6,686)	(6,515)
Administrative expenses	26	(57,713)	(59,062)
Research and development expenses	26	(118)	(2,449)
Net impairment losses on financial and contract assets		(15,093)	(8,948)
Other income	24	331	80,590
Other losses	25	<u>(210)</u>	<u>(13)</u>
Operating profit		<u>254,760</u>	<u>308,733</u>
Finance income	27	44,094	22,541
Finance costs	27	<u>(95,733)</u>	<u>(134,331)</u>
Finance costs – net	27	<u>(51,639)</u>	<u>(111,790)</u>
Share of results of associates		<u>(179)</u>	<u>(56)</u>
Profit before tax		202,942	196,887
Income tax expense	28	<u>(35,205)</u>	<u>(36,298)</u>
Net Profit		<u>167,737</u>	<u>160,589</u>
Profit attributable to:			
– Owners of the Company		166,969	159,555
– Non-controlling interests		<u>768</u>	<u>1,034</u>
		<u>167,737</u>	<u>160,589</u>

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

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences		<u>(499)</u>	<u>796</u>
Total comprehensive income for the period		<u>167,238</u>	<u>161,385</u>
Total comprehensive income attributable to:			
– Owners of the Company		166,470	160,351
– Non-controlling interests		<u>768</u>	<u>1,034</u>
		<u>167,238</u>	<u>161,385</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>0.16</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Investment properties	7	274,069	273,755
Right-of-use assets/land use rights	8	432,788	437,025
Property, plant and equipment	9	2,759,238	2,840,698
Receivables under service concession arrangements	10	2,715,074	2,420,630
Amounts due from customers for construction contracts	16	617,463	612,729
Intangible assets	11	324,506	329,289
Investments in associates	12	14,342	14,521
Deferred tax assets	13	77,330	73,606
		7,214,810	7,002,253
Current assets			
Receivables under service concession arrangements	10	9,072	6,562
Inventories		13,465	11,759
Amounts due from customers for construction contracts	16	20,956	26,954
Financial assets at amortised cost		265,000	300,000
Trade and other receivables	15	2,550,266	2,391,034
Contract assets		191,367	–
Cash and bank balance	17	1,201,662	749,940
Restricted funds		28,611	7,990
		4,280,399	3,494,239
Total assets		11,495,209	10,496,492

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	21	252,136	248,429
Borrowings	20	2,278,361	3,081,966
Deferred income tax liabilities	13	86,361	82,246
		<u>2,616,858</u>	<u>3,412,641</u>
Current liabilities			
Trade and other payables	22	703,397	699,096
Tax payables		87,007	96,091
Borrowings	20	3,616,764	1,884,963
Lease liabilities		2,527	1,168
Contract liabilities	22	46,007	45,493
Financial liabilities at fair value through profit or loss	14	106,477	84,613
		<u>4,562,179</u>	<u>2,811,424</u>
Total liabilities		<u><u>7,179,037</u></u>	<u><u>6,224,065</u></u>
Net assets		<u>4,316,172</u>	<u>4,272,427</u>
CAPITAL AND RESERVES			
Share capital	18	1,029,111	1,029,111
Other reserves	19	1,522,881	1,523,380
Accumulated profits		1,756,276	1,712,800
Equity attributable to owners of the Company		<u>4,308,268</u>	4,265,291
Non-controlling interests		<u>7,904</u>	<u>7,136</u>
Total equity		<u><u>4,316,172</u></u>	<u><u>4,272,427</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

		Unaudited					
		Capital and reserves attributable to equity holders of the Company					
Note	Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>	
	1,029,111	1,489,179	1,569,375	4,087,665	6,756	4,094,421	
Comprehensive income:							
	–	–	159,555	159,555	1,034	160,589	
	–	–	–	–	–	–	
	–	–	–	–	–	–	
	–	796	–	796	–	796	
	<u>–</u>	<u>796</u>	<u>–</u>	<u>796</u>	<u>–</u>	<u>796</u>	
	–	796	159,555	160,351	1,034	161,385	
Transactions with owners:							
	–	–	(128,639)	(128,639)	–	(128,639)	
	<u>–</u>	<u>–</u>	<u>(128,639)</u>	<u>(128,639)</u>	<u>–</u>	<u>(128,639)</u>	
	1,029,111	1,489,975	1,600,291	4,119,377	7,790	4,127,167	
	<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>	
	1,029,111	1,523,380	1,712,800	4,265,291	7,136	4,272,427	
Comprehensive income:							
	–	–	166,969	166,969	768	167,737	
	–	–	–	–	–	–	
	–	–	–	–	–	–	
	–	(499)	–	(499)	–	(499)	
	<u>–</u>	<u>(499)</u>	<u>–</u>	<u>(499)</u>	<u>–</u>	<u>(499)</u>	
	–	(499)	166,969	166,470	768	167,238	
	<u>–</u>	<u>(499)</u>	<u>166,969</u>	<u>166,470</u>	<u>768</u>	<u>167,238</u>	
Transactions with owners:							
	–	–	(123,493)	(123,493)	–	(123,493)	
	<u>–</u>	<u>–</u>	<u>(123,493)</u>	<u>(123,493)</u>	<u>–</u>	<u>(123,493)</u>	
	1,029,111	1,522,881	1,756,276	4,308,268	7,904	4,316,172	
	<u>1,029,111</u>	<u>1,522,881</u>	<u>1,756,276</u>	<u>4,308,268</u>	<u>7,904</u>	<u>4,316,172</u>	

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2021	2020
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash used in operations	31	(500,740)	(544,109)
Interest paid		(118,584)	(107,078)
Income tax paid		(43,898)	(35,145)
Net cash used in operating activities		<u>(663,222)</u>	<u>(686,332)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(33,228)	(64,505)
Purchase of intangible assets		(4,253)	–
Advances to related parties		(500,000)	(650,000)
Repayments from related parties		650,000	1,000,000
Interest received		44,094	29,694
Government grants received relating to purchase of property, plant and equipment	21	10,360	–
Proceeds from disposal of investments in financial assets at amortised cost		35,000	–
Cash expenditures for acquisition of subsidiaries		(18,839)	–
Proceeds from disposal of property, plant and equipment		51	89
Net cash generated from investing activities		<u>183,185</u>	<u>315,278</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		1,994,472	1,015,000
(Increase)/decrease of restricted funds		(20,621)	59,994
Repayments of borrowings		(1,040,605)	(628,719)
Repayments of lease liabilities		(988)	(2,196)
Net cash from financing activities		<u>932,258</u>	<u>444,079</u>
Net increase in cash and cash equivalents		452,221	73,025
Cash and cash equivalents at beginning of the period		749,940	1,290,199
Exchange (loss)/gains		(499)	17,560
Cash and cash equivalents at end of the period		<u><u>1,201,662</u></u>	<u><u>1,380,784</u></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 40 were approved for issue by the Board on 20 August 2021.

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 Chapter Two “Management discussion and analysis” as set out on pages 41 to 66 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 2021 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 2020. 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 2020. 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 IFRS 16	COVID-19 related rent concessions beyond 30 June 2021
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	Onerous contracts – Cost of fulfilling a contract
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IAS 1 and IFRS Practice Statement No. 2	Disclosure of accounting policy
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
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to IFRS 4	Expiry date of the deferral approach

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 2020 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 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 2020 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.

As at 30 June 2021, if RMB had weakened/strengthened by 1% (2020: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, revenue for the six months ended 30 June 2021 would have been approximately RMB1,363,000 (31 December 2020: approximately RMB2,004,000) higher/lower. If RMB had weakened/strengthened by 1% (2020: 1%) against HKD and USD denominated borrowings with all other variables held constant, financial costs for the year would have been approximately RMB20,813,000 (31 December 2020: approximately RMB23,002,000) lower/higher.

5.3 Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, 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 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 2021, 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.

5.3 Credit risk (Continued)

(i) Trade receivables

For trade receivables, the customers are primarily local governments and PRC state-owned entities. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 1 January 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. There was no change in the estimation techniques or significant assumptions made during the period.

On that basis, loss allowance provision for trade receivables amounted to approximately RMB48,792,000 was recognised as at 30 June 2021 (31 December 2020: approximately RMB35,312,000). The expected loss rate for trade receivables and the loss allowance provision as at 30 June 2021 and 31 December 2020 are illustrated as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 30 June 2021				
Expected loss rate	2.24%	2.53%	44.50%	
Gross carrying amount (RMB'000)	1,034,958	417,499	33,745	1,486,202
Loss allowance provision (RMB'000)	(23,223)	(10,552)	(15,017)	(48,792)
	<u>1,011,735</u>	<u>406,947</u>	<u>18,728</u>	<u>1,437,410</u>
Credit-impaired	No	No	No	
	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2020				
Expected loss rate	2.36%	3.68%	40.97%	
Gross carrying amount (RMB'000)	971,116	175,053	14,522	1,160,691
Loss allowance provision (RMB'000)	(22,921)	(6,442)	(5,949)	(35,312)
	<u>948,195</u>	<u>168,611</u>	<u>8,573</u>	<u>1,125,379</u>
Credit-impaired	No	No	No	

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.3 Credit risk (Continued)

(i) Trade receivables (Continued)

As at 30 June 2021, the Group recognised loss allowance of approximately RMB13,480,000 (31 December 2020: approximately RMB15,089,000) on the trade receivables. The movement in the loss allowance for trade receivables is summarised below.

	30 June 2021 RMB'000	31 December 2020 RMB'000
At the beginning of the reporting period	35,312	16,294
Increase in allowance	13,480	15,089
Increase from acquisition of subsidiaries which are not businesses	–	3,929
	<u>48,792</u>	<u>35,312</u>

(ii) Receivables under service concession arrangements/amounts due from customers for construction contracts/other receivables/financial assets at amortised cost

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 also considers available reasonable and supportive forwarding-looking information.

The Group does not hold any collateral over receivables under service concession arrangements or amounts due from customers for construction contracts as at 30 June 2021 (31 December 2020: Nil).

The Group uses four categories for these receivables, which reflect their credit risk and how the loss provision is determined for each of those categories.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk	Lifetime expected losses
Non-performing	Customers have difficulties in making full payment despite numerous reminders	Lifetime expected losses
Write-off	There is no reasonable expectation of recovery	Asset is written off

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.3 Credit risk (Continued)

(ii) *Receivables under service concession arrangements/amounts due from customers for construction contracts/other receivables/financial assets at amortised cost (Continued)*

On the basis as stated, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables (except for the tax rebate which are not financial assets) amounted to approximately RMB27,374,000 (31 December 2020: approximately RMB25,811,000) was recognised at 30 June 2021 as follows:

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Total
As at 30 June 2021					
Expected loss rate	0.01%-0.6%	0.5%-1.2%	0.3%-1%	0%	
Gross carrying amount (RMB'000)	2,739,288	646,292	1,057,482	265,000	4,708,062
Loss allowance provision (RMB'000)	(15,142)	(7,873)	(4,359)	—	(27,374)
	<u>2,724,146</u>	<u>638,419</u>	<u>1,053,123</u>	<u>265,000</u>	<u>4,680,688</u>
Credit-impaired	No	No	No	No	
	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Total
As at 31 December 2020					
Expected loss rate	0.01%-0.6%	0.5%-1.2%	0.3%-1%	0%	
Gross carrying amount (RMB'000)	2,440,245	646,908	1,200,799	300,000	4,587,952
Loss allowance provision (RMB'000)	(13,053)	(7,225)	(5,533)	—	(25,811)
	<u>2,427,192</u>	<u>639,683</u>	<u>1,195,266</u>	<u>300,000</u>	<u>4,562,141</u>
Credit-impaired	No	No	No	No	

As at 30 June 2021, the Group recognised loss allowance of approximately RMB1,563,000 (31 December 2020: approximately RMB11,582,000) on the receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables. The movement in the loss allowance for trade receivables is summarised below.

	30 June 2021 RMB'000	31 December 2020 RMB'000
At the beginning of the reporting period	25,811	10,093
Increase of allowance	1,563	11,582
Increase from acquisition of subsidiaries which are not businesses	—	4,136
At the end of the reporting period	<u>27,374</u>	<u>25,811</u>

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

5.4 Liquidity risk

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2021 (Unaudited)					
Borrowings	4,090,692	868,902	1,378,818	381,744	6,720,156
Financial liabilities included in trade and other payables	656,885	-	-	-	656,885
Lease liabilities	2,527	-	-	-	2,527
	<u>4,750,104</u>	<u>868,902</u>	<u>1,378,818</u>	<u>381,744</u>	<u>7,379,568</u>
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2020 (Audited)					
Borrowings	2,095,732	2,545,658	759,754	-	5,401,144
Financial liabilities included in trade and other payables	635,087	-	-	-	635,087
Lease liabilities	1,168	-	-	-	1,168
	<u>2,731,987</u>	<u>2,545,658</u>	<u>759,754</u>	<u>-</u>	<u>6,037,399</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 shows the Group's assets and liabilities that are regularly measured at fair value as at 30 June 2021:

At 30 June 2021 (Unaudited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Cross Currency swap classified as financial (liabilities) at FVPL	-	(106,477)	-	(106,477)
Investment properties	-	-	274,069	274,069

- The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2020 on a recurring basis:

At 31 December 2020 (Audited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Cross Currency swap classified as financial (liabilities) at FVPL	-	(84,613)	-	(84,613)
Investment properties	-	-	273,755	273,755

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

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

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

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

6 SEGMENT AND REVENUE INFORMATION

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

The executive directors of the Company consider the business from product and service perspective. The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation services, thermal production and treasury functions.

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2021 and 2020 are set out as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	589,555	537,347
Operating services – under TOO model	430,775	390,050
Operating services – under TOT/BOT model	68,860	50,240
Construction services – under BT model	686	334
Construction services – under BOT model	56,445	64,020
Finance income	32,789	32,703
Reclaimed water supply and running water supply	103,699	60,955
Operating services – under TOO model	20,161	10,313
Operating services – under TOT/BOT model	4,832	6,706
Construction services – under BT model	–	99
Construction services – under BOT model	58,513	28,737
Finance income	20,193	15,100
Others	199,162	196,214
Management services	96,750	83,113
Transportation services	4,245	1,976
Construction services – under BT model	18,379	59,833
Construction services – under BOT model	3,516	–
Thermoelectricity services	57,708	38,612
Others	18,564	12,680
	892,416	794,516

6 SEGMENT AND REVENUE INFORMATION (Continued)

(b) Segment information (Continued)

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

	For the six months ended 30 June 2020 (Unaudited)			
Business segment	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<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	222,142	20,711	26,100	268,953
Fair value loss on financial liabilities at FVPL				<u>39,780</u>
Finance income				22,541
Finance costs				(134,331)
Share of results of associates				<u>(56)</u>
Profit before tax				<u><u>196,887</u></u>
Other information				
Depreciation of property, plant and equipment	98,647	754	8,533	107,934
Amortisation of land use rights	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 31 December 2020 (Audited)			
Business segment	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>7,267,231</u>	<u>1,060,842</u>	<u>2,080,292</u>	<u>10,408,365</u>
Unallocated:				
Deferred tax assets				73,606
Investments in associates				<u>14,521</u>
Total assets				<u><u>10,496,492</u></u>
Segment liabilities	<u>4,285,038</u>	<u>679,798</u>	<u>1,080,892</u>	<u>6,045,728</u>
Unallocated:				
Deferred tax liabilities				82,246
Tax payables				<u>96,091</u>
Total liabilities				<u><u>6,224,065</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	
	2021	2020
	RMB'000	RMB'000
Customer A	263,549	255,942
Customer B	132,285	113,258
	<u>395,834</u>	<u>369,200</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	
	2021	2020
	RMB'000	RMB'000
At fair value		
At the beginning of the reporting period	273,755	–
Transferred from construction in progress	–	64,686
Change in fair value	314	16,314
At the end of the reporting period	<u>274,069</u>	<u>81,000</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 2021, a fair value gain of approximately RMB314,000 (30 June 2020: approximately RMB16,314,000) was recognised in the consolidated income statement.

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	Weighted average market rent, ranging from RMB34.58/sq.m. to RMB39.67/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 RMB27,407,000/RMB27,407,000

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 2021.

8 RIGHT-OF-USE ASSETS/LAND USE RIGHTS

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 2021			
At the beginning of the Reporting Period	435,399	1,626	437,025
Additions	–	2,515	2,515
Depreciation	(4,913)	(1,839)	(6,752)
At the end of the reporting period	<u>430,486</u>	<u>2,302</u>	<u>432,788</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 2021						
At the beginning of the reporting period	1,823,021	688,203	54,902	10,618	263,954	2,840,698
Additions (a)	239	5,643	1,252	224	27,269	34,627
Transfers	53,774	21,374	-	-	(76,756)	(1,608)
Disposals	(3)	(71)	-	-	-	(74)
Depreciation (Note 26)	(53,959)	(54,033)	(5,391)	(1,022)	-	(114,405)
At the end of the reporting period	<u>1,823,072</u>	<u>661,116</u>	<u>50,763</u>	<u>9,820</u>	<u>214,467</u>	<u>2,759,238</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)						
Six months ended 30 June 2020						
At the beginning of the reporting period	1,769,153	550,133	44,643	12,843	682,128	3,058,900
Additions	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)
At the end of the reporting period	<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>

(a) For the six months ended 30 June 2021, additions were approximately RMB34,627,000 and the depreciation was approximately RMB114,405,000.

(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 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
Buildings and facilities	<u><u>335,172</u></u>	<u><u>346,204</u></u>

10 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	9,110	6,612
Loss allowance	(38)	(50)
	<u>9,072</u>	<u>6,562</u>
Non-current portion:		
Receivables under service concession arrangements	2,730,178	2,433,633
Loss allowance	(15,104)	(13,003)
	<u>2,715,074</u>	<u>2,420,630</u>
	<u><u>2,724,146</u></u>	<u><u>2,427,192</u></u>

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

11 INTANGIBLE ASSETS

	Computer software RMB'000	Operating concession RMB'000	Other intangible assets RMB'000	Total RMB'000
(Unaudited)				
Six months ended 30 June 2021				
Opening net book value	9,592	319,697	–	329,289
Additions	–	–	2,645	2,645
Transfer	1,608	–	–	1,608
Amortisation (Note 26)	(7,337)	(1,699)	–	(9,036)
	<u>3,863</u>	<u>317,998</u>	<u>2,645</u>	<u>324,506</u>
Closing net book value	<u><u>3,863</u></u>	<u><u>317,998</u></u>	<u><u>2,645</u></u>	<u><u>324,506</u></u>
	Computer software RMB'000	Operating concession RMB'000	Other intangible assets RMB'000	Total RMB'000
(Unaudited)				
Six months ended 30 June 2020				
Opening net book value	8,080	191,340	–	199,420
Additions	–	17,377	–	17,377
Amortisation (Note 26)	(1,465)	(3,515)	–	(4,980)
	<u>6,615</u>	<u>205,202</u>	<u>–</u>	<u>211,817</u>
Closing net book value	<u><u>6,615</u></u>	<u><u>205,202</u></u>	<u><u>–</u></u>	<u><u>211,817</u></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 2021 RMB'000	Audited 31 December 2020 RMB'000
Unlisted shares		
Share of net assets	5,000	5,179
Goodwill	9,342	9,342
	<u>14,342</u>	<u>14,521</u>
At the end of the reporting period	<u>14,342</u>	<u>14,521</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 RMB'000	Proportion of ownership interest held by the Group		Principal activities
			Unaudited	Audited	
			30 June 2021	31 December 2020	
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

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

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Losses RMB'000	Net assets RMB'000
For the six months ended 30 June 2021	<u>6,514</u>	<u>1,514</u>	<u>199</u>	<u>(179)</u>	<u>5,000</u>
For the year ended 31 December 2020	<u>6,902</u>	<u>1,723</u>	<u>262</u>	<u>(312)</u>	<u>5,179</u>

* For identification purpose only

13 DEFERRED TAX ASSETS AND LIABILITIES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Deferred tax assets:		
– to be recovered within 12 months	34,177	17,163
– to be recovered after more than 12 months	43,153	56,443
	<u>77,330</u>	<u>73,606</u>
Deferred tax liabilities:		
– to be recovered within 12 months	7,810	1,577
– to be recovered after more than 12 months	78,551	80,669
	<u>86,361</u>	<u>82,246</u>

Movements in deferred tax assets and liabilities during the six months ended 30 June 2021 and 2020, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Deferred tax assets:		
At the beginning of the period	73,606	52,990
Recognised in profit or loss (Note 28)	<u>3,724</u>	<u>2,131</u>
At the end of the period	<u>77,330</u>	<u>55,121</u>

Deferred tax assets as at 30 June 2021 and 2020 were mainly related to government grant, tax losses carried forward, unrealised foreign exchange losses as well as depreciation and amortisation differences arising from the revaluation results on certain wastewater treatment facilities and 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	
	2021 RMB'000	2020 RMB'000
Deferred tax liabilities		
At the beginning of the period	82,246	74,473
Recognised in profit or loss (Note 28)	<u>4,115</u>	<u>10,320</u>
At the end of the period	<u>86,361</u>	<u>84,793</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 fair value as at 30 June 2020 and 2021.

* For identification purpose only

14 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Derivatives not designated as hedging instruments			
– Cross Currency swap (“CCS”)	(a)	106,477	84,613
		<u>106,477</u>	<u>84,613</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 2021, loss (2020:loss) on change in fair value of the currency swap arrangement in an aggregate amount of approximately RMB18,414,000 (31 December 2020:approximately RMB130,940,000) was charged to profit or loss.

The Company entered into loan contracts with Ping An Bank Co., Ltd. and Seoul Branch of China Everbright Bank Co., Ltd. in March 2021 and April 2021 for USD30,400,000 and USD13,797,683 respectively and entered into swap agreements with Kunming Branch of Ping An Bank Co., Ltd. and Kunming Branch of China Everbright Bank Co., Ltd. for a term of one year. As at 30 June 2021, losses on fair value changes of the swap agreements totalling approximately RMB3,450,000 were included in profit or loss.

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

15 TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade receivables (Note (a)):			
– Third parties		100,842	83,918
– Related parties (Note 33(d)(i))		145,373	85,983
– Local government		1,239,987	990,790
– Loss allowance		(48,792)	(35,312)
Trade receivables – net		<u>1,437,410</u>	<u>1,125,379</u>
Other receivables:			
– Third parties		141,875	128,176
– Related parties (Note 33(d)(i))		879,049	1,029,152
– Local government		49,438	53,319
– Loss allowance		(4,359)	(5,533)
Other receivables – net		<u>1,066,003</u>	<u>1,205,114</u>
Prepayments:			
– Others		46,857	60,545
– Loss allowance		(4)	(4)
Prepayments – net		<u>46,853</u>	<u>60,541</u>
Trade and other receivables – net		<u>2,550,266</u>	<u>2,391,034</u>

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

15 TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS (Continued)

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Contract assets		
– Local government	<u>191,367</u>	<u>–</u>
	<u>191,367</u>	<u>–</u>

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
– Within one year	1,034,958	971,116
– Over one year and within two years	417,499	175,053
– Over two years	<u>33,745</u>	<u>14,522</u>
	<u>1,486,202</u>	<u>1,160,691</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 recognised profits less recognised losses:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	<u>20,956</u>	<u>26,954</u>
Non-current portion:		
Amounts due from customers for construction contracts	625,336	619,954
Loss allowance	<u>(7,873)</u>	<u>(7,225)</u>
	<u>617,463</u>	<u>612,729</u>
	<u>638,419</u>	<u>639,683</u>

17 CASH AND CASH EQUIVALENTS

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Cash and bank balances	(a)	1,201,662	749,940
Restricted funds	(b)	28,611	7,990

(a) Cash and bank balances are denominated in:

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
RMB		1,065,393	549,537
HKD		76,642	149,282
USD		59,627	51,121
		1,201,662	749,940

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 2021 (31 December 2020: 0.30% to 1.92%).

(b) As at 30 June 2021, restricted funds included guarantee deposits for construction projects and guarantee deposits for letters of credit (31 December 2020: including 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 2021 and 30 June 2021 (Unaudited)	1,029,111	1,029,111
At 1 January 2020 and 30 June 2020 (Unaudited)	1,029,111	1,029,111

19 OTHER RESERVES

	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Property revaluation surplus RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2021	1,283,440	272,137	(47,793)	11,145	4,451	1,523,380
Currency translation differences	-	-	-	-	(499)	(499)
At 30 June 2021 (unaudited)	1,283,440	272,137	(47,793)	11,145	3,952	1,522,881
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)	1,283,440	251,226	(47,793)	-	3,102	1,489,975

20 **BORROWINGS**

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Non-current:		
Unsecured long-term borrowings	1,599,433	850,000
Secured long-term borrowings (<i>Note (b)</i>)	640,117	2,194,263
Corporate bonds (<i>Note (c)</i>)	38,811	37,703
	<u>2,278,361</u>	<u>3,081,966</u>
Current:		
Unsecured short-term borrowings	1,706,088	1,390,000
Secured short-term borrowings (<i>Note (b)</i>)	1,910,676	494,963
	<u>3,616,764</u>	<u>1,884,963</u>
	<u>5,895,125</u>	<u>4,966,929</u>

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

(b) As at 30 June 2021 and 31 December 2020, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Secured by:		
Corporate guarantee issued by the Company	2,238,272	2,325,298
Property, plant and equipment	312,521	363,928
Total	<u>2,550,793</u>	<u>2,689,226</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.

In 2020, the Company has repurchased corporate bonds with a nominal value of RMB660,000,000, and reduced the coupon rate of the bonds to 4.15%, which will remain unchanged in the sixth and seventh years of lifetime (from 25 December 2020 to 24 December 2022).

20 **BORROWINGS (Continued)**

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

	6 months or less <i>RMB'000</i>	Between 6 and 12 months <i>RMB'000</i>	Between 1 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2021 (Unaudited)	<u>254,017</u>	<u>3,362,747</u>	<u>2,278,361</u>	<u>5,895,125</u>
As at 31 December 2020 (Audited)	<u>928,844</u>	<u>955,010</u>	<u>3,083,075</u>	<u>4,966,929</u>

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

	Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
On demand or within 1 year	3,616,764	1,883,854
Between 1 and 2 years	918,713	2,431,242
Between 2 and 5 years	1,223,291	626,633
Over 5 years	136,357	25,200
	<u>5,895,125</u>	<u>4,966,929</u>

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

	Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
Weighted average effective interest rates of borrowings	<u>5.38%</u>	<u>5.89%</u>

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

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

	Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
RMB facilities	<u>1,017,000</u>	<u>1,525,000</u>

21 DEFERRED REVENUE

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Government grants related to: – property, plant and equipment	<u>252,136</u>	<u>248,429</u>
	<u>252,136</u>	<u>248,429</u>

The movement of government grants during the six months ended 30 June 2021 and 2020 is set out as follows:

	Unaudited Six months ended 30 June 30 June 2021 RMB'000	30 June 2020 RMB'000
At the beginning of the reporting period	248,429	266,354
Additions	10,360	–
Credit to statement of profit or loss and other comprehensive income (Note 24)	<u>(6,653)</u>	<u>(4,795)</u>
At the end of the reporting period	<u>252,136</u>	<u>261,559</u>

22 TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade payables	251,506	327,203
Other payables due to:	139,733	148,067
– related parties (Note 33(d)(ii))	21,774	23,255
– local government	500	1,182
– third parties	117,459	123,630
Consideration payable for acquisition of subsidiaries	34,218	53,057
Staff salaries and welfare payables	26,471	42,543
Payables on acquisition of property, plant and equipment due to:	49,741	48,566
– related parties (Note 33(d)(ii))	16,040	16,040
– third parties	33,701	32,526
Payables on acquisition of land use rights from related parties (Note 33(d)(ii))	58,194	58,194
Dividend payables (Note 30)	123,493	–
Interest payables	4,351	5,929
Accrued taxes other than income tax	<u>15,690</u>	<u>15,537</u>
Total trade and other payables	<u>703,397</u>	<u>699,096</u>

22 **TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES (Continued)**

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Contract liabilities		
– local government	38,273	30,793
– third parties	7,734	14,700
	46,007	45,493

- (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 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
– Within one year	171,539	214,562
– Over one year and within two years	79,363	100,354
– Beyond two years	604	12,287
	251,506	327,203

23 **LEASE**

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Right-of-use assets/land use rights (Note 8)		
– Leased properties	2,302	1,626
– Land use right	430,486	435,399
	432,788	437,025
Lease liabilities		
Current	2,527	1,168
	2,527	1,168

24 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants:	10,396	13,037
– relating to property, plant and equipment (<i>Note 21</i>)	6,653	4,651
– relating to research and development activities (<i>Note 21</i>)	–	144
– relating to tax refund (<i>Note (a)</i>)	3,743	8,242
Interest income from cash and cash equivalents	1,447	1,963
Fair value (loss)/gain on financial (liabilities)/assets at FVPL	(21,864)	39,780
Fair value change of investment properties (<i>Note 7</i>)	314	16,314
Rental income	6,457	–
Others	3,581	9,496
	331	80,590

- (a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation 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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	(23)	–
Donation expenses	(79)	(5)
Others	(108)	(8)
	(210)	(13)

26 EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 9)	114,405	107,934
Utilities, electricity and office expenditures	64,358	64,476
Employee benefit expenses	81,687	77,121
Costs of wastewater and water supply services	80,351	55,294
Cost of construction services	124,420	137,368
Taxes and levies	15,336	13,850
Repair and maintenance costs	9,235	12,039
Commission charge (Note 33(b)(vi))	4,665	4,049
Depreciation of right-of-use assets	6,752	7,353
Subcontracting costs	25,946	14,943
Professional expenses	8,858	8,143
Research and development expenses	118	2,449
Amortisation of intangible assets (Note 11)	9,036	4,980
Auditor's remuneration	201	396
Fuels expenses	40,628	26,335
Miscellaneous	36,688	20,682
	<u>622,684</u>	<u>557,412</u>
Total cost of sales, selling expenses, administrative expenses and research and development expenses		

27 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income:		
– Interest income from term deposits	–	880
– Interest income charged to related parties (Note 33(b)(iv))	44,094	21,661
	<u>44,094</u>	<u>22,541</u>
Finance costs:		
– Interest expenses	(118,118)	(105,754)
– Exchange gain/(losses)-net	23,392	(28,518)
– Others	(1,007)	(59)
	<u>(95,733)</u>	<u>(134,331)</u>
Finance costs – net	<u>(51,639)</u>	<u>(111,790)</u>

28 INCOME TAX EXPENSES

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax	34,814	28,109
Deferred tax (<i>Note 13</i>)	391	8,189
	<u> </u>	<u> </u>
Income tax expenses	<u>35,205</u>	<u>36,298</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 2021 and 2020, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

- (a) China’s west region development policy (the “West Region Development Policy”) is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in the western provinces of China. During the six months ended 30 June 2021 and 2020, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.
- (b) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments and are entitled to three years’ exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.
- (c) The Group estimated that the forecasted effective tax rate for the year ending 30 June 2021 is 17.3% and the effective tax rate for the year ended 31 December 2020 was 15.7%.

29 EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the profit attributable owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company (<i>RMB'000</i>)	166,969	159,555
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (<i>RMB</i>)	<u>0.16</u>	<u>0.16</u>

- (b) The diluted earnings per share are the same as the basic earnings per share as there was no dilutive potential share during the six months ended 30 June 2021 and 2020.

30 DIVIDENDS

As approved by the 2020 annual general meeting of the Company held on 18 June 2021, the Company can distribute the final dividend for the year ended 31 December 2020 to all Shareholders of RMB0.120 (tax inclusive) per share, amounting to RMB123,493,320 (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 2020 but will be disclosed in the dividend distribution of the consolidated financial statements for the six months period ended 30 June 2021. The 2020 dividends had been distributed to the Shareholders on 5 August 2021 in cash dividends.

31 CASH USED IN OPERATING ACTIVITIES

Reconciliation of profit before income tax to net cash used in operations:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit before tax	202,942	196,887
Adjustments for:		
– Depreciation of property, plant and equipment (Note 26)	114,405	107,934
– Depreciation of right-of-use assets (Note 26)	6,752	7,353
– Amortisation of intangible assets (Note 26)	9,036	4,980
– Government grants relating to purchase of property, plant and equipment (Note 24)	(6,653)	(4,651)
– Share of results of associates (Note 12)	179	56
– Finance costs – net	75,031	83,272
– Fair value gains on derivative financial instruments and investment properties	(314)	(56,094)
– Investment income from single asset management investments	–	(7,153)
– Fair value loss on derivative financial instruments	21,864	–
– Impairment losses on financial assets and contract assets	15,093	8,948
– Loss on disposal of property, plant and equipment	23	15
– Exchange differences	(26,171)	42,530
	412,187	384,077
	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Changes in working capital:		
– Increase in trade and other receivables	(321,589)	(410,905)
– (Increase)/decrease in inventories	(1,706)	9,556
– Decrease/(increase) in amounts due from customers for construction contracts	616	(79,296)
– Increase in receivables under service concession arrangements	(299,042)	(427,492)
– Decrease in deferred revenue relating to research and development activities	–	(144)
– Increase in trade and other payables	(100,353)	(24,193)
– Increase in contract assets	(191,367)	–
– Increase in contract liabilities	514	4,288
Net cash used in operations	(500,740)	(544,109)

32 COMMITMENTS

(i) Operating lease undertakings

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 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Within one year	13,826	12,414
One to two years	13,941	13,855
Two to five years	36,420	38,141
Over five years	29,195	34,487

(ii) At the beginning of the reporting period, capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Property, plant and equipment	50,000	54,099

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 ("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 2021 and 2020, and balances arising from related party transactions as at 30 June 2021 and 31 December 2020.

(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 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 Agricultural Development Investment Co., Ltd. (昆明農業發展投資有限公司), ("Kunming Agricultural Development Investment")	Controlled by Kunming SASAC

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this announcement, during the six months ended 30 June 2021 and 2020, the Group had the following significant transactions with related parties.

(i) *Treatment and disposal charge in relation to certain sludge generated from wastewater treatment facilities:*

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
KDI	2,123	–

(ii) *Loans granted to related parties:*

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Kunming Bus	300,000	300,000
Kunming DIG	350,000	350,000
	<u>650,000</u>	<u>650,000</u>

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

(iii) *Loans repaid from related parties:*

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<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>

33 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

(iv) Interest income from related parties:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Kunming DIG	11,745	9,285
Xindu Investment	11,461	1,461
Kunming Bus	11,007	10,915
Kunming Agricultural Development Investment	9,881	–
	<u>44,094</u>	<u>21,661</u>

(v) Management services provided to related parties:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
KDI	<u>67,076</u>	<u>55,698</u>

(vi) Commission charged by related parties:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Kunming CGE	3,969	3,522
Kunming Qingyuan	696	527
	<u>4,665</u>	<u>4,049</u>

(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	
	2021	2020
	RMB'000	RMB'000
Salaries, wages and bonuses	782	772
Contributions to pension plans	185	188
Housing fund, medical insurance and other social insurance	154	145
	<u>1,121</u>	<u>1,105</u>

33 RELATED PARTY TRANSACTIONS (Continued)

(d) Balances with related parties

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Xindu Investment	377,485	377,721
Kunming Bus	300,523	300,686
Kunming DIG	200,493	350,197
KDI	108,882	37,800
Kunming CGE	25,949	26,291
Kunming Qingyuan	11,090	22,440
	<u>1,024,422</u>	<u>1,115,135</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 7.0% per annum respectively and repayable within one year.

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 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	21,167	22,317
Kunming CGE	415	425
Kunming Qingyuan	192	513
	<u>96,008</u>	<u>97,489</u>

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

(iii) Financial assets at amortised cost:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Kunming Agricultural Development Investment	<u>265,000</u>	<u>300,000</u>

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

In the first half of 2021, the global economy faced a great challenge due to the spread of mutants of coronavirus. In response to the rapid spread of the epidemic of COVID-19, countries around the world accelerated vaccination, while continuing to maintain proactive fiscal policies in order to counter the impact of the epidemic of COVID-19 on economic recovery. In the first half of the year, China's national economy continued to recover steadily, reinforcing with stability and improving in a stable manner with rapid growth of new momentum with steady improvement in quality and efficiency and positive market expectations. With the rising rate of vaccination, the vaccine-driven economic recovery will gradually accelerate.

In terms of industry development, China's 14th Five-Year Plan has set the achievement of new progress in ecological civilization construction as one of the main goals of economic and social development, proposing to accelerate the filling of room for short-term investment in infrastructure, municipal engineering, ecological and environmental protection and other short board areas to give full play to the role of government investment, stimulate the vitality of private investment, and form a market-led endogenous growth mechanism for investment. In June 2021, the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Construction issued the "14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resourceful Utilization" (《“十四五”城鎮污水處理及資源化利用發展規劃》), which proposed "to improve the efficiency of urban wastewater collection and treatment as a guide, and to make up for the shortcomings of urban wastewater treatment facilities and strengthen the weaknesses of the projects as a grip to coordinate planning, focus on key points, be problem-oriented, classify implementation of policies, and accelerate the formation of the guiding ideology of a new pattern of reasonable layout, system coordination, safety and efficiency, energy saving and low-carbon urban wastewater collection and treatment and resources utilization" which clearly defined development objectives, key tasks and work requirements, and provided an important basis for the orderly development of water environment infrastructure construction work in various regions. In order to better fight the battle of pollution prevention and control, the central budget for water pollution control in 2021 was RMB21.7 billion, representing an increase of 10.2%, which was mainly applied for the prevention and control of water pollution in key river basins such as the Yangtze River. The fiscal budget of Yunnan Province has allocated RMB4.2 billion to support the protection and treatment of nine plateau lakes and coordinated RMB3.55 billion to support horizontal ecological compensation in the Yangtze River basin and the protection of six major water systems. As a result, the environmental protection industry maintains a rapid development trend during the 14th Five-Year Plan period.

The Company is positioned as an internationally operated comprehensive service provider of ecological and environmental protection and management. Its main business currently revolves around wastewater treatment, reclaimed water supply, water supply services and solid waste treatment and disposal services, as well as the extension of the development of its upstream and downstream industries. We enjoy the exclusive right to provide wastewater treatment services to Kunming and certain other regions in China. Benefit from the continuous guidance of national policies, the steady growth of market demand and the continuous effect of the Company's scientific and technological innovation, talent team building and improvement in quality and enhancement in efficiency of the management, the Company's various businesses have been developing steadily.

1. Overview of Wastewater Treatment Industry

Since the 13th Five-Year Plan, various departments in different regions have been thoroughly implementing Xi Jinping's ideology of ecological civilization, conscientiously executing the decisions and plans of the Party Central Committee and the State Council to continuously increase the construction and operation management of urban wastewater treatment facilities, and significantly improve the level of wastewater collection and treatment capacity levels; however, there is an unbalanced and insufficient development of urban wastewater collection and treatment in China and the shortcomings and weaknesses are still outstanding. There is still a gap of the realization of high-quality development.

According to the national goals of the "14th Five-Year Plan of Urban Wastewater Treatment and Resource Utilization Development Plan (《“十四五”城鎮污水處理及資源化利用發展規劃》)", by 2025, the urban built-up areas of direct discharge and collection and treatment facilities in the blank area will be basically eliminated and the national urban domestic wastewater centralized collection rate will strive to reach more than 70%. The wastewater treatment capacity of cities and counties will basically meet the needs of economic and social development and the wastewater treatment rate of county cities will reach more than 95%. The wastewater treatment of water in environmentally sensitive areas will basically reach Class A discharge standards. The utilization rate of reclaimed water in cities with water shortage at the prefecture level and above will reach more than 25% of which the Beijing-Tianjin-Hebei region will reach more than 35% and cities with water shortage at the middle and lower reaches of the Yellow River Basin will strive to reach 30%. By 2035, urban domestic wastewater collection networks will be fully covered basically, and urban wastewater treatment capacity will be fully covered. Harmless disposal of sludge will be fully realized, and the level of resource utilization of wastewater and sludge will be significantly improved in which urban wastewater will be safely and efficiently processed, thus all of us will share a green, ecological and safe urban water ecological environment.

As an important component of the ecological security pattern of the upper reaches of the Yangtze River, Dianchi plays an extremely important role in ensuring national and regional ecological security. In October 2020, Kunming released the "14th Five-Year Plan for the Protection and Management of the Dianchi Basin Water Environment (2021-2025)" (《滇池流域水環境保護治理“十四五”規劃(2021-2025年)》), which clearly stated that by 2025, the quality of water environment will continue to improve and the advancement pattern of the water environment, water ecology and water resources will be initially formed. The water quality of the Caohai and offshore waters of Dianchi will reach Class IV and above stably and the water quality of major rivers entering the lake will reach Class IV and above. The spatial control pattern of the basin will be basically formed, and the ecological protection red line system of the basin will be effectively implemented. The water surface of Dianchi will be free from large-scale cyanobacterial bloom. The natural lake shoreline index will be significantly improved, and indigenous fish species will reappear in Dianchi. The function of the aquatic ecosystem will be benignly restored, realizing the scene of "there are rivers and waters, fishes and grasses, and people and water are in harmony".

2. Overview of Reclaimed Water Industry

Reclaimed water has the characteristics of upstream flow control and downstream source development which can practically improve the ecological environment, realize the virtuous cycle of water ecology and effectively solve the problem of water shortage in cities and towns. The National 14th Five-Year Plan includes the construction of a resource recycling system and the overall improvement of resource utilization efficiency. The plan specifies the implementation of a national water conservation campaign, the establishment of a rigid water resource restraint system, the strengthening of water conservation and efficiency in agriculture, water conservation and emission reduction in industry and water conservation and loss reduction in cities and towns, the encouragement of the use of reclaimed water, the reduction of water consumption per unit of gross domestic product (GDP) by around 16%. The plan has also put forward the target of resourceful utilization of wastewater of more than 25% in water-scarce cities at the prefecture level and above.

In addition, the “14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resource Utilization” (《十四五城鎮污水處理及資源化利用發展規劃》) also proposed that new construction, reconstruction and expansion of reclaimed water production capacity should not be less than 15 million m³ per day and that a systematic, safe, environmentally friendly and economical pattern for resource utilization of wastewater will be formed by 2035. The promulgation of a series of policies will promote the construction of recycling facilities, advance resource utilization of wastewater, and facilitate rapid development of the industry.

3. Overview of Municipal Water Supply Industry

In recent years, the national water supply business has been on a steady development trend in general. The water supply business in some areas with relatively delayed development is still in the stage of rapid growth. The National 14th Five-Year Plan has opened a new chapter of high-quality development, which is inseparable from the quality improvement of basic water supply services. The 14th Five-Year Plan proposed to accelerate the development of modern industrial systems, consolidate and strengthen the foundation of the real economy, reinforce the supporting and leading role of infrastructure, and speed up the construction of water supply and irrigation and the follow-up project construction of the South-to-North Water Diversion, etc., which will further promote the high-quality development of the industry. The government attaches great importance to the development of water supply in western China. In 2021, Yunnan Province issued the “Yunnan Province to Consolidate the Implementation Plan to Improve the Level of Rural Water Supply Security” (《雲南省鞏固提升農村供水保障水平實施方案》), stating that by the end of 2025, Yunnan’s rural water supply coverage rate will reach the national average and a rural water supply operation and management pattern of professional management, entrepreneurial operation and social services will be formed initially, so that the level of rural water supply protection will be significantly improved, providing strong support for comprehensive implementation of the rural revitalization strategy. The accelerated urbanization of China and the promotion of industrial policies are expected to provide momentum for sustainable development of the municipal water supply industry.

II. DEVELOPMENT STRATEGY AND FUTURE PROSPECTS

In 2021, China's economic recovery continues to gain a sound momentum with research and development as well as full inoculation of the coronavirus vaccine. In the 14th Five-Year Plan, China has put forward a higher standard of stringent requirements for ecological and environmental management during the period of the 14th Five-Year Plan to make up for the shortcomings. The plan proposed that by 2035, the urban domestic wastewater collection networks will be fully covered basically, and urban wastewater treatment capacity will be fully covered. Harmless disposal of sludge will be fully realized, and the level of resource utilization of wastewater and sludge will be significantly improved in which urban wastewater will be safely and efficiently processed, thus all of us will share a green, ecological and safe urban water ecological environment. In the future, the increment of wastewater treatment industry will mainly lie in upgrading of standards. The shortage of water resources and the improvement of water treatment standards will promote the upgrading of the wastewater treatment industry. Under the goal of carbon neutrality, relevant top-level designs will be gradually improved, and the synergy effect of pollution reduction and carbon reduction will be significant. Overlapping with the introduction of development plans and other relevant policies, the industry will usher in new development opportunities.

In the future, the Company will closely follow the national policy, adhere to "unitary domination with diversified development", broaden the market of the Company's business services horizontally, vertically focus on the main business, extend the industrial chain and continue to develop and improve the businesses of sludge resource utilisation, solid waste treatment and disposal, mine rehabilitation and watershed management and other businesses. At the same time, the Company will continue to take the construction of talented team as a grip and take scientific and technological innovation as a driving force to promote the implementation of innovative achievements, actively deploy and facilitate the construction of intelligent water services, make full use of the achievements of modern information technology, carry out networked, digital and integrated comprehensive upgrading of the entire industrial chain and cross-regional production units, fully exploit the potential of existing facilities and equipment, stimulate the internal dynamics of the Company, improve its own high-quality service level, management level and research and development level, and steadily advance the high-quality and sustainable development of the Company in order to continue to contribute to the development of the environmental protection industry.

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 2021, our TOO projects contributed to 54.5% of our total revenue. Our TOT projects contributed to 9.4% of our total revenue and our BOT projects contributed to 16.1% of our total revenue. We also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT models, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtain new concessions from or transfer the relevant facilities back to the relevant local governments, depending on project types. As of 30 June 2021, we had a total of 49 water plants under concession agreements, of which 44 were in operation and 5 were under construction. Among such 44 water plants in operation, 14 were TOO projects, 22 were TOT projects, 6 were BOT projects and 2 were BOO projects.

Wastewater Treatment Projects

As of 30 June 2021, we had a total of 37 wastewater treatment plants in operation (including 14 in the main city of Kunming and 23 in other areas of China), with a total wastewater treatment capacity of 1.98 million m³. We also had 4 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 2021, 95.5% of our designed wastewater treatment capacity reached the National Class I Category A standard.

In recent years, with the continuous upgrading of national standards for wastewater treatment and discharge, especially the treatment of Dianchi Basin has set more stringent requirements for wastewater treatment and discharge standards in the basin, the Company's wastewater plant in Kunming has also formed a variety of effluent water quality standards such as Class I Category A standard, Class I reinforcement, super limited phosphorus removal and DF membrane process. The Company continues to promote the establishment of a water quality classification pricing system for wastewater treatment to reflect the efficiency of pollution and emission reduction under different water quality standards linked to economic benefits, further accelerating the Company's motivation of upgrading and reforming and realizing joint development of social benefits and economic benefits.

Reclaimed Water Business

For our reclaimed water business, as of 30 June 2021, we had 11 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 233,000 m³.

Our reclaimed water business is mainly located in Yunnan Province and the current scope of reclaimed water reuse gradually expands to the entire main urban area of Kunming. From the point of view of usage, the main reclaimed water users in Kunming include 14 categories of users such as residential communities, government/enterprises and institutions, commercial centers, car wash shops, engineering and construction units, road sprinkling, landscape green sprinkling, sanitation, toilet flushing, river water replenishment, industrial enterprises, metro stations, schools, hospitals and parks, etc. In recent years, as the government attaches great importance to the use of reclaimed water, the amount of reclaimed water has been increasing year by year.

In addition to the utilization of reclaimed water treatment stations and urban miscellaneous reclaimed water supplied by the water supply pipe network, we also studied and proposed solutions to the situation of no effective ecological water replenishment, dryness of rivers and disconnection of rivers that some of the rivers in Kunming City face after the implementation of wastewater diversion and river wastewater interception projects. Through the pumping station and water replenishment pipe network, reclaimed water that met the river water replenishment quality standards was used to replenish the water in 7 rivers. Since water replenishment, the respective relevant rivers have not only achieved smooth compliance with water quality assessments, but also presented a good ecological landscape benefit of clear water and green shore which has significantly improved the local urban water environment.

Running Water Business

For our running water business, as of 30 June 2021, we had 7 running water plants in operation in the PRC (of which six in Yunnan Province and one in Hunan Province) and 1 running water plant under construction.

Following continuous urbanization in various parts of China and renewal of water supply facilities, coupled with the current plan vigorously implemented in the vast rural areas of China in accordance with the rural revitalization strategic plan to improve the water supply conditions in rural areas, 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 2020, our revenue amounted to RMB794.5 million, and increased by 12.3% to RMB892.4 million for the six months ended 30 June 2021; our gross profit for the six months ended 30 June 2020 were RMB305.1 million and increased by 9.5% to RMB334.2 million for the six months ended 30 June 2021. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water supply, running water supply services and other services accounted for 66.1%, 11.6% and 22.3% 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)	
	2021	2020
	RMB'000	RMB'000
Revenue	892,416	794,516
Cost of sales	<u>(558,167)</u>	<u>(489,386)</u>
Gross profit	334,249	305,130
Selling expenses	(6,686)	(6,515)
Administrative expenses	(57,713)	(59,062)
Research and development expenses	(118)	(2,449)
Net impairment losses on financial and contract assets	(15,093)	(8,948)
Other income	331	80,590
Other losses	<u>(210)</u>	<u>(13)</u>
Operating profit	<u>254,760</u>	<u>308,733</u>
Finance income	44,094	22,541
Finance costs	<u>(95,733)</u>	<u>(134,331)</u>
Finance costs – net	<u>(51,639)</u>	<u>(111,790)</u>
Share of results of associates	<u>(179)</u>	<u>(56)</u>
Profit before tax	202,942	196,887
Income tax expense	<u>(35,205)</u>	<u>(36,298)</u>
Profit for the period	<u>167,737</u>	<u>160,589</u>
Other comprehensive (loss)/income for the period	<u>(499)</u>	<u>796</u>
Total comprehensive income for the period	<u><u>167,238</u></u>	<u><u>161,385</u></u>

a. Revenue

During the Reporting Period, our revenue amounted to RMB892.4 million, an increase of RMB97.9 million or 12.3% as compared to RMB794.5 million for the same period last year, primarily because:

Our revenue from wastewater treatment business increased by RMB52.3 million or 9.7% from RMB537.3 million for the six months ended 30 June 2020 to RMB589.6 million for the six months ended 30 June 2021, which was mainly due to the increase in wastewater treatment volume and the change in value-added tax (VAT) rate during the Reporting Period.

Revenue from our water supply segment increased by RMB42.7 million, or 70.0%, from RMB61.0 million for the six months ended 30 June 2020 to RMB103.7 million for the six months ended 30 June 2021, mainly attributable to the increase in construction investment in the existing and new water supply projects and the growth of the reclaimed water supply business during the Reporting Period.

Our revenue from other segments increased by RMB3.0 million or 1.5% from RMB196.2 million for the six months ended 30 June 2020 to RMB199.2 million for the six months ended 30 June 2021, the change in the current period was relatively small compared with the same period of last year.

b. Cost of sales

During the Reporting Period, our cost of sales amounted to RMB558.2 million, representing an increase of 14.1% as compared to RMB489.4 million for the same period last year, primarily due to an increase in operating costs, construction costs and water supply segment construction costs for the wastewater treatment segment during the Reporting Period. Details are as follows:

The cost of sales of our wastewater treatment segment increased by RMB33.9 million or 11.8% from RMB287.6 million for the six months ended 30 June 2020 to RMB321.5 million for the six months ended 30 June 2021, which was mainly due to the increase in wastewater treatment volume and wastewater treatment costs during the Reporting Period; and the increase in sludge disposal costs during the current period.

The cost of sales for our water supply segment increased by RMB33.4 million or 88.6% from RMB37.7 million for the six months ended 30 June 2020 to RMB71.1 million for the six months ended 30 June 2021, mainly due to the increase in construction costs of water supply projects and the growth of the reclaimed water supply business during the Reporting Period.

Cost of sales of our other segments increased by RMB1.5 million or 0.9% from RMB164.1 million for the six months ended 30 June 2020 to RMB165.6 million for the six months ended 30 June 2021, the change in the current period was relatively small compared with the same period of last year.

c. Gross Margin

During the Reporting Period, our gross margin was 37.5%, representing a decrease of 0.9% as compared to 38.4% for the same period last year, primarily due to the decrease in gross profit margin of wastewater treatment and water supply segments.

Our gross profit margin for the wastewater treatment segment decreased from 46.5% for the six months ended 30 June 2020 to 45.5% for the six months ended 30 June 2021, mainly due to the increase in wastewater treatment costs.

Our gross profit margin of water supply segment decreased from 38.1% for the six months ended 30 June 2020 to 31.5% for the six months ended 30 June 2021, mainly due to the increase in construction input for running water and water supply projects and lower construction gross profit during the construction phase during the current period.

Our other segments' gross profit margin increased from 16.4% for the six months ended 30 June 2020 to 16.8% for the six months ended 30 June 2021.

d. Selling expenses

During the Reporting Period, our selling expenses amounted to RMB6.7 million, representing an increase of RMB0.2 million or 3.1% as compared to RMB6.5 million in the corresponding period of the previous year, the change in the current period was relatively small compared with the same period of last year.

e. Administrative expenses

During the Reporting Period, our administrative expenses amounted to RMB57.7 million, representing a decrease of RMB1.4 million compared to RMB59.1 million for the same period of the previous year, the change in the current period was relatively small compared with the same period of last year.

f. Other income

During the Reporting Period, our other income amounted to RMB0.3 million, representing a decrease of RMB80.3 million as compared to the same period of last year, which was mainly due to the decrease in the impact of changes in the fair value of derivative financial instruments and investment properties on profit or loss as compared to the same period of last year.

g. Other losses

During the Reporting Period, our other losses amounted to RMB0.2 million, representing an increase of approximately RMB0.2 million as compared to the same period last year, the change in the current period was relatively small compared with the same period of last year.

h. Operating profit

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to RMB254.8 million, a decrease of RMB53.9 million or 17.5% as compared to RMB308.7 million for the same period last year. Our operating margin during the Reporting Period was 28.5%.

i. Finance income

During the Reporting Period, our finance income amounted to approximately RMB44.1 million, representing an increase of RMB21.6 million as compared to that of approximately RMB22.5 million in the corresponding period of the previous year, which was mainly attributable to an increase in interest income from loans to related parties for the current period as compared to the corresponding period of the previous year .

j. Finance costs

During the Reporting Period, our finance costs amounted to approximately RMB95.7 million, representing a decrease of RMB38.6 million as compared to approximately RMB134.3 million in the corresponding period of last year which was mainly due to an increase in foreign exchange gains, which in turn led to a decrease in finance costs.

k. Profit before tax

During the Reporting Period, our profit before tax amounted to RMB202.9 million, as compared to RMB196.9 million for the same period last year, representing an increase of RMB6.0 million or 3.0%.

l. Income tax

During the Reporting Period, our net income tax expense amounted to RMB35.2 million, a decrease of 3.0% as compared to RMB36.3 million for the same period last year. The effective tax rate was 17.3%, a decrease of 1.1 percentage point as compared with the same period last year. Our effective tax rate is generally the same as last year.

m. Total comprehensive income

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to RMB167.2 million, increased by 3.6% as compared to RMB161.4 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)	
	2021	2020
	RMB'000	RMB'000
Net cash used in operating activities	(663,222)	(686,332)
Net cash generated from investing activities	183,185	315,278
Net cash generated from financing activities	932,258	444,079
Net increase in cash and cash equivalents	452,221	73,025
Foreign exchange (losses)/gains	(499)	17,560
Cash and cash equivalents at beginning of the period	749,940	1,290,199
	<u>1,201,662</u>	<u>1,380,784</u>
Cash and cash equivalents at end of the period	1,201,662	1,380,784

a. Net cash used in operating activities

Our net cash used in 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 RMB663.2 million, representing a decrease of RMB23.1 million as compared to net cash used in operating activities of RMB686.3 million in the corresponding period of last year, which was primarily due to the combined changes in cash received from customers for the provision of services and products and cash invested for securing concession projects.

b. Net cash generated from investing activities

Our net cash from investing activities primarily represents external investments, purchase of property, plant and equipment and the receipt of government grants related thereto.

Our net cash generated from investing activities decreased from RMB315.3 million for the six months ended 30 June 2020 to RMB183.2 million for the six months ended 30 June 2021, mainly due to the recovery of entrusted loans to related parties in the current period which was smaller than that in the corresponding period of the previous year.

c. Net cash generated from financing activities

Our net cash generated from financing activities primarily represents obtaining and repaying borrowings.

Our net cash generated from financing activities increased from RMB444.1 million for the six months ended 30 June 2020 to RMB932.3 million for the six months ended 30 June 2021 mainly due to an increase in net amount of new borrowings during the Reporting Period as compared to the corresponding period of the previous 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 2021, approximately RMB927.4 million, accounting for 86.5% 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	Actual use of	Unused net proceeds from the Initial Public Offering <i>RMB million</i>
			net proceeds from the Initial Public Offering from 1 January 2021 to the period ended 30 June 2021 <i>RMB million</i>	net proceeds from the Initial Public Offering from the Listing Date to the period ended 30 June 2021 <i>RMB million</i>	
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	–	317.6	57.7
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	–	107.2	–
Effect of foreign exchange		–	–	–	7.0
Total	100%	1,072.3	–	927.4	151.9

As of 30 June 2021, 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. Affected by the COVID-19 epidemic, the progress of use of proceeds was slightly delayed from the scheduled time, and the proceeds are expected to be used up within 1 year (i.e. before June 2022). 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 2021, 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
	2021	2020
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	9,072	6,562
Inventories	13,465	11,759
Amounts due from customers for construction contracts	20,956	26,954
Financial assets at amortised cost	265,000	300,000
Trade and other receivables	2,550,266	2,391,034
Contract assets	191,367	–
Cash and bank balances	1,201,662	749,940
Restricted funds	28,611	7,990
	<hr/>	<hr/>
Total current assets	4,280,399	3,494,239
	<hr/> <hr/>	<hr/> <hr/>

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Current liabilities		
Trade and other payables	703,397	699,096
Tax payables	87,007	96,091
Borrowings	3,616,764	1,884,963
Lease liabilities	2,527	1,168
Contract liabilities	46,007	45,493
Financial liabilities at fair value through profit or loss	106,477	84,613
	<u>4,562,179</u>	<u>2,811,424</u>
Total current liabilities		
	<u>4,562,179</u>	<u>2,811,424</u>
Net current assets	<u>(281,780)</u>	<u>682,815</u>

As at 30 June 2021 and 31 December 2020, we recorded net current assets of RMB-281.8 million and net current assets of RMB682.8 million. The decrease in net current assets was mainly due to the increase in short-term borrowings and long-term borrowings due within one year.

a. Receivables under service concession arrangements

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). Under our BOT and TOT agreements, the amounts 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 (adjusted by operation services and finance income). The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB9.1 million as at 30 June 2021, representing an increase of 37.9% from RMB6.6 million as at 31 December 2020, 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 RMB2,715.1 million as at 30 June 2021, representing an increase of 12.2% from RMB2,420.6 million as at 31 December 2020, mainly due to the investment in construction of new projects and the normal implementation of existing projects.

b. Inventories

Our total inventory balance increased from RMB11.8 million as of 31 December 2020 to RMB13.5 million as of 30 June 2021, representing an increase of RMB1.7 million or 14.4%, primarily due to an increase in inventory of Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司).

For the six months ended 30 June 2021, our inventory turnover days were 4.1 days, a decrease of 1.0 day as compared to the year ended 31 December 2020. The calculation for inventory turnover days was based on the average annual inventory divided by the sales cost recognised as the cost of sales during the relevant period and multiplied by 180 days.

c. Amounts due from customers for construction contracts

As of 30 June 2021, our amounts due from customers for construction contracts were approximately RMB638.4 million, decreased by RMB1.3 million as compared to RMB639.7 million as of 31 December 2020.

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, related parties and local governments; 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.

* For identification purpose only

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
	2021	2020
	RMB'000	RMB'000
Trade receivables:		
– Third parties	100,842	83,918
– Related parties	145,373	85,983
– Local government	1,239,987	990,790
– Loss allowance	(48,792)	(35,312)
	<u>1,437,410</u>	<u>1,125,379</u>
Trade receivables – net		
	<u>1,437,410</u>	<u>1,125,379</u>
Other receivables:		
– Third parties	141,875	128,176
– Related parties	879,049	1,029,152
– Local government	49,438	53,319
– Loss allowance	(4,359)	(5,533)
	<u>1,066,003</u>	<u>1,205,114</u>
Other receivables – net		
	<u>1,066,003</u>	<u>1,205,114</u>
Prepayments:		
– Others	46,857	60,545
– Loss allowance	(4)	(4)
	<u>46,853</u>	<u>60,541</u>
Prepayments – net		
	<u>46,853</u>	<u>60,541</u>
Trade and other receivables – net		
	<u>2,550,266</u>	<u>2,391,034</u>

As of 30 June 2021, our net trade and other receivables was approximately RMB2,550.3 million, increased by RMB159.3 million or 6.7% as compared to approximately RMB2,391.0 million as of 31 December 2020, primarily due to the increase in the provision of services and products during the current period.

The ageing analysis of total accounts receivable based on sales invoices as at each balance sheet date is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
– Within one year	1,034,958	971,116
– Over one year and within two years	417,499	175,053
– Over two years	33,745	14,522
	1,486,202	1,160,691

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	Days	Days
Trade receivables turnover days ⁽¹⁾	258.5	199.5
Trade and other receivables turnover days ⁽²⁾	498.3	440.1

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 2021 and the year ended 31 December 2020.
- (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 2021 and the year ended 31 December 2020.

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
	2021	2020
	RMB'000	RMB'000
Trade payables	251,506	327,203
Other payables	139,733	148,067
Consideration unpaid for acquisition of subsidiaries	34,218	53,057
Staff salaries and welfare payables	26,471	42,543
Payables on acquisition of property, plant and equipment	49,741	48,566
Payables on acquisition of land use rights from related parties	58,194	58,194
Interest payables	4,351	5,929
Accrued taxes other than income tax	15,690	15,537
Dividend payables	123,493	–
	703,397	699,096

As of 30 June 2021, our trade and other payables amounted to approximately RMB703.4 million, representing an increase of RMB4.3 million or 0.6% as compared to approximately RMB699.1 million as of 31 December 2020.

The ageing analysis of total accounts payable based on invoices as at each balance sheet date is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
– Within one year	171,539	214,562
– Over one year and within two years	79,363	100,354
– Over two years	604	12,287
	251,506	327,203

As at 30 June 2021 and 31 December 2020, 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
	2021	2020
	Days	Days
Trade payables turnover days ⁽¹⁾	116.3	119.0
Trade and other payables turnover days ⁽²⁾	226.1	175.0

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 2021 and the year ended 31 December 2020.
- (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 2021 and the year ended 31 December 2020.

Our Directors confirm that up to 30 June 2021, 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	Audited
	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Non-current:		
Unsecured long-term borrowings	1,599,433	850,000
Secured long-term borrowings	640,117	2,194,263
Corporate bonds	38,811	37,703
Total non-current borrowings	<u>2,278,361</u>	<u>3,081,966</u>
Current:		
Unsecured short-term borrowings	1,706,088	1,390,000
Secured short-term borrowings	1,910,676	494,963
Total current borrowings	<u>3,616,764</u>	<u>1,884,963</u>
Total borrowings	<u>5,895,125</u>	<u>4,966,929</u>
Average effective interest rates	<u>5.38%</u>	<u>5.89%</u>

As at 31 December 2020 and 30 June 2021, we had total borrowings of RMB4,966.9 million and RMB5,895.1 million, respectively. Among our debt, borrowings of RMB363.9 million and RMB312.5 million as at 31 December 2020 and 30 June 2021 were secured by property, plant and equipment, and borrowings of RMB2,325.3 million and RMB2,238.3 million were guaranteed by the Company. In addition to the bank borrowings, our total borrowings also included our corporate bonds issued in the PRC in the amount of approximately RMB700.0 million on 25 December 2015 with a maturity of 7 years and an interest rate of 4.35% per annum. At the end of the fifth year, the Company may adjust the interest rate for the remaining two years with an option to request early redemption of the outstanding corporate bonds if investors do not agree to the adjustment of the interest rate.

In 2020, the Company has repurchased corporate bonds with a nominal value of RMB660.0 million, and reduced the coupon rate of the bonds to 4.15%, which will remain unchanged in the sixth and seventh years of lifetime (from 25 December 2020 to 24 December 2022).

As of 30 June 2021, 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 2021, we had not received any requests for early repayment of the principal or interest under any of our loan agreements.

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
	2021	2020
	RMB'000	RMB'000
On demand or within 1 year	3,616,764	1,883,854
Between 1 and 2 years	918,713	2,431,242
Between 2 and 5 years	1,223,291	626,633
Over 5 years	136,357	25,200
	<u>5,895,125</u>	<u>4,966,929</u>

As of 30 June 2021, 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 interest-bearing liabilities less cash and cash equivalents at the end of the period; total capital is calculated as total equity plus net debt) was 52.0%, representing an increase of 2.4 percentage points from that as of 31 December 2020, primarily due to the increase in borrowings during the current period.

Except as disclosed above, as of 30 June 2021, 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
	2021	2020
	RMB'000	RMB'000
Property, plant and equipment	<u>50,000</u>	<u>54,099</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 RMB39.8 million for the six months ended 30 June 2021, representing a decrease of 53.4% as compared to RMB85.4 million for the six months ended 30 June 2020.

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Wastewater treatment	22,691	83,289
Water supply	4,211	1,529
Others	<u>12,885</u>	<u>548</u>
	<u>39,787</u>	<u>85,366</u>

We expect to incur capital expenditure amounting to RMB60.0 million for the year ending 31 December 2021. 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 2021, we had 1,355 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 2021:

Function	Number
Management and Administration	162
Finance	38
R&D	85
Quality Monitoring	231
Marketing	16
Operations	783
Construction and Maintenance	40
Total	<u>1,355</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 2020 amounted to RMB77.1 million, and our employee benefits and labor expenses from January to June in 2021 amounted to RMB81.7 million, representing an increase of approximately RMB4.6 million or 6.0% as compared to the same period of 2020.

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 talented team building systems that coexist in various talent business training methods. With the core talent circulation training mechanism and other methods that take “production, learning, research and use”, 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 2021, the Group did not have any material contingent liability.

8. Major Investment and Acquisition

On 11 September 2020, the Company (as the Asset Entrustor) entered into an 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) in relation to the investment and management of the entrusted assets. Pursuant to the agreement, the Group agreed to entrust an amount of up to RMB300 million as the entrusted assets for the investment in a single asset management plan issued by Bosera Capital. The entrusted assets were used for investment in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. (“**KADI**”). KADI is a wholly state-owned company, which is principally engaged in investment and construction of agricultural industrialisation projects, investment and construction of agricultural water conservancy and irrigation projects, land consolidation, development and investment, development and investment in elderly care and funeral industries and other agricultural and livelihood service industries. For details, please refer to the announcement of the Company dated 11 September 2020. As of 30 June 2021, the company has redeemed entrusted assets of RMB35.0 million and the remaining portion 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 2.3% of the total assets of the Group. These investments recorded realised or unrealised gains of RMB9.9 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 KADI in the future in the aspects such as the cooperation in the form of innovative financing, project investment and resources sharing.

During the Reporting Period, the Company did not enter into any new material investment and acquisition agreements and projects under the original investment and acquisition agreements were being actively pursued.

Save as disclosed above, as of 30 June 2021, the Group did not have any major investment and acquisition.

9. Material Litigation

As of 30 June 2021, the Group was 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 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 2021, loss on change in fair value of the swap agreement was approximately RMB18,414,000.

The Company entered into loan contracts with Ping An Bank Co., Ltd. and Seoul Branch of China Everbright Bank Co., Ltd. in March 2021 and April 2021 for USD30,400,000 and USD13,797,683 respectively and entered into swap agreements with Kunming Branch of Ping An Bank Co., Ltd. and Kunming Branch of China Everbright Bank Co., Ltd. for a term of one year. For the six months ended 30 June 2021, losses on fair value changes of the swap agreement amounted to approximately RMB3,450,000.

11. Loans to Certain Entities

The Company entered into an entrusted loan contract 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 22 February 2021 respectively, pursuant to which the Company entrusted the Bank of Communications to grant a loan of RMB300 million 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 22 February 2021. In addition, the Company provided entrusted loans of RMB60 million and RMB240 million to Kunming Bus in January 2020 and February 2020, respectively, which were repaid in January 2021 and February 2021, respectively.

The Company entered into an entrusted loan contract with Kunming DIG and the Bank of Communications on 17 June 2021, pursuant to which the Company entrusted the Bank of Communications to provide a RMB200 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 17 June 2021. In addition, the Company provided an entrusted loan of RMB350 million to Kunming DIG in June 2020 which was repaid in June 2021.

As far as the Company is aware, 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. Kunming DIG held 20,959,760 domestic shares in the Company as at the Latest Practicable Date, representing 2.04% of the total share capital of the Company, which are also not connected persons as defined under the Listing Rules.

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company understands that good corporate governance is conducive to healthy and sustainable development of the Company and enhances the comprehensive competitiveness of the Company. 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 as set out in Appendix 10 to the Listing Rules 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 the Directors and supervisors of the Company, the Directors and supervisors of the Company confirmed that they had strictly complied with the required standard 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 2021.

VI. AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") consists of three independent non-executive Directors, namely Yin Xiaobing, Johnson Wan and Zheng Dongyu. The Audit Committee 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 2021 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VII. INTERIM DIVIDEND

The Board proposes to distribute an interim cash dividend for the six months ended 30 June 2021 (the "**2021 Interim Dividend**") of RMB0.05 per share (tax inclusive), totaling RMB51,455,550 (tax inclusive) to all Shareholders whose names appear on the Company's registers of Shareholders of Domestic Shares and H Shares as at Tuesday, 23 November 2021. 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 2021 second extraordinary general meeting (the "**2021 Second Extraordinary General Meeting**") to be held by the Company. The expected dividend distribution date is Wednesday, 29 December 2021 (for the six months period ended 30 June 2020: RMB0.054 per share (tax inclusive)).

The proposal regarding the distribution of 2021 Interim Dividend shall be confirmed subject to the approval by Shareholders at the 2021 Second 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 (《關於中國居民民企業向境外H股非居民企業股東派發2008年及企業向境外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 non-resident 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 2021 Second Extraordinary General Meeting and to receive the 2021 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 2021 Second Extraordinary General Meeting:

Latest time for lodging the H shares transfer documents: 4:30 pm on 21 October 2021 (Thursday)

Date of closure of register of members for H Shares: From 22 October 2021 (Friday) to and until 12 November 2021 (Friday) (both days inclusive)

Record Date: 12 November 2021 (Friday)

Date for convening the 2021 Second Extraordinary General Meeting: 12 November 2021 (Friday)

- (ii) Subject to the passing of the proposal of distribution of the 2021 Interim Dividend at the 2021 Second Extraordinary General Meeting, for determining the list of H Shareholders who are entitled to the 2021 Interim Dividend:

Latest time for lodging the H shares transfer documents: 4:30 pm on 17 November 2021 (Wednesday)

Date of closure of register of members for H Shares: From 18 November 2021 (Thursday) to and until 23 November 2021 (Tuesday) (both days inclusive)

Dividend Entitlement Date: 23 November 2021 (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 2021 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.kmdcwt.com>).

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

Kunming, the PRC, 20 August 2021

As at 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. Ren Na and Ms. Yu Yanbo, as non-executive Directors; and Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Johnson Wan, as independent non-executive Directors.