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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)

2022 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2022, the Group's:

- revenue amounted to approximately RMB909.1 million, representing an increase of 1.9% from the corresponding period of last year;
- profit before tax amounted to approximately RMB206.9 million, representing an increase of 2.0% from the corresponding period of last year;
- net profit attributable to the equity holders of the Company amounted to approximately RMB182.8 million, representing an increase of 9.5% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.18, representing an increase of 12.5% from the corresponding period of last year.

The board (the “**Board**”) of directors (the “**Director(s)**”) 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 2022 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2021, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THEREON

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	909,091	892,416
Cost of sales	27	<u>(516,153)</u>	<u>(558,167)</u>
Gross profit		392,938	334,249
Selling expenses	27	(3,788)	(6,686)
Administrative expenses	27	(50,710)	(57,713)
Research and development expenses	27	(185)	(118)
Net impairment losses on financial and contract assets		(9,997)	(15,093)
Other income	25	20,739	331
Other losses	26	<u>(1,048)</u>	<u>(210)</u>
Operating profit		<u>347,949</u>	<u>254,760</u>
Finance income	28	22,409	44,094
Finance costs	28	<u>(163,127)</u>	<u>(95,733)</u>
Finance costs – net	28	<u>(140,718)</u>	<u>(51,639)</u>
Share of results of associates		<u>(363)</u>	<u>(179)</u>
Profit before tax		206,868	202,942
Income tax expense	29	<u>(23,382)</u>	<u>(35,205)</u>
Profit for the period		183,486	167,737
Profit for the period attributable to:			
– Equity holders of the Company		182,826	166,969
– Non-controlling interests		<u>660</u>	<u>768</u>
		<u>183,486</u>	<u>167,737</u>

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

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
Other comprehensive income for the period			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on consolidation		<u>2,830</u>	<u>(499)</u>
Total comprehensive income for the period		<u>186,316</u>	<u>167,238</u>
Total comprehensive income for the period attributable to:			
– Equity holders of the Company		185,656	166,470
– Non-controlling interests		<u>660</u>	<u>768</u>
		<u>186,316</u>	<u>167,238</u>
Earnings per share for profit for the period attributable to equity holders of the Company (expressed in RMB per share)			
		0.18	0.16
– Basic and diluted earnings per share	30	<u>0.18</u>	<u>0.16</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022

		Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
	Notes		
ASSETS			
Non-current assets			
Investment properties	7	276,377	276,377
Right-of-use assets/land use rights	8	419,742	424,945
Property, plant and equipment	9	2,704,024	2,637,090
Receivables under service concession arrangements	10	2,535,785	2,732,351
Amounts due from customers for construction contracts	17	524,223	559,714
Contract assets	16	249,825	249,825
Intangible assets	11	300,889	313,494
Investments in associates	12	12,430	12,793
Deferred income tax assets	13	83,063	84,490
		<u>7,106,358</u>	<u>7,291,079</u>
Current assets			
Receivables under service concession arrangements	10	5,841	5,463
Inventories		18,296	16,595
Amounts due from customers for construction contracts	17	21,393	22,785
Financial assets at amortised cost	15	290,000	294,000
Trade and other receivables	16	3,114,940	2,884,020
Cash and bank balances	18	479,737	1,504,346
Restricted funds	18	62,613	49,650
		<u>3,992,820</u>	<u>4,776,859</u>
Assets classified as held for sale	24	<u>143,631</u>	<u>—</u>
		<u>4,136,451</u>	<u>4,776,859</u>
Total assets		<u><u>11,242,809</u></u>	<u><u>12,067,938</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
	Notes		
LIABILITIES			
Non-current liabilities			
Deferred revenue	22	236,834	245,267
Borrowings	21	2,880,987	2,193,023
Deferred income tax liabilities	13	68,950	86,492
		<u>3,186,771</u>	<u>2,524,782</u>
Current liabilities			
Trade and other payables	23	673,734	678,982
Tax payables		79,205	97,494
Borrowings	21	2,772,147	4,212,914
Contract liabilities	23	9,797	7,505
Financial liabilities at fair value through profit or loss	14	–	110,450
		<u>3,534,883</u>	<u>5,107,345</u>
Liabilities directly associated with assets classified as held for sale	24	<u>3,632</u>	<u>–</u>
		<u>3,538,515</u>	<u>5,107,345</u>
Total liabilities		<u>6,725,286</u>	<u>7,632,127</u>
Net assets		<u>4,517,523</u>	<u>4,435,811</u>
CAPITAL AND RESERVES			
Share capital	19	1,029,111	1,029,111
Other reserves	20	1,546,406	1,543,576
Accumulated profits		<u>1,934,630</u>	<u>1,854,715</u>
Equity attributable to owners of the Company		<u>4,510,147</u>	<u>4,427,402</u>
Non-controlling interests		<u>7,376</u>	<u>8,409</u>
Total equity		<u>4,517,523</u>	<u>4,435,811</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

Note	Unaudited					
	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated	Total	Non-controlling	Total equity
			profits		interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2021	1,029,111	1,523,380	1,712,800	4,265,291	7,136	4,272,427
Comprehensive income:						
Profit for the period	-	-	166,969	166,969	768	167,737
Other comprehensive income	-	-	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-	-	-	-	-
Exchange differences on consolidation	-	(499)	-	(499)	-	(499)
Total comprehensive income for the period	-	(499)	166,969	166,470	768	167,238
Transactions with owners:						
Dividends	-	-	(123,493)	(123,493)	-	(123,493)
As at 30 June 2021	<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>
As at 1 January 2022	1,029,111	1,543,576	1,854,715	4,427,402	8,409	4,435,811
Comprehensive income:						
Profit for the period	-	-	182,826	182,826	660	183,486
Other comprehensive income	-	-	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-	-	-	-	-
Exchange differences on consolidation	-	2,830	-	2,830	-	2,830
Total comprehensive income for the period	-	2,830	182,826	185,656	660	186,316
Transactions with owners:						
Dividends in respect of previous year approved	-	-	(102,911)	(102,911)	-	(102,911)
Dividends to non-controlling interests	-	-	-	-	(1,693)	(1,693)
As at 30 June 2022	<u>1,029,111</u>	<u>1,546,406</u>	<u>1,934,630</u>	<u>4,510,147</u>	<u>7,376</u>	<u>4,517,523</u>

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	32	23,808	(500,740)
Interest paid		(110,710)	(118,584)
Income tax paid		(55,737)	(43,898)
Net cash used in operating activities		(142,639)	(663,222)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(121,314)	(33,228)
Purchase of intangible assets		–	(4,253)
Advances to related parties		(560,000)	(500,000)
Repayments from related parties		650,000	650,000
Interest received		12,166	44,094
Government grants received relating to purchase of property, plant and equipment	22	–	10,360
Proceeds from disposal of investments in financial assets at amortised cost		–	35,000
Cash expenditures for acquisition of subsidiaries		(17,435)	(18,839)
Proceeds from disposal of property, plant and equipment		163	51
Settlement of financial liabilities at FVPL		(30,565)	–
Net cash (used in)/generated from investing activities		(66,985)	183,185

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Unaudited	
	Six months ended 30 June	
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
FINANCING ACTIVITIES		
Proceeds from borrowings	2,061,076	1,994,472
Increase of restricted fund	(12,963)	(20,621)
Repayments of borrowings	(2,861,751)	(1,040,605)
Repayments of lease liabilities	–	(988)
Dividends declared and paid to non-controlling shareholders	(1,693)	–
Net cash (used in)/generated from financing activities	(815,331)	932,258
Net (decrease)/increase in cash and cash equivalents	(1,024,955)	452,221
Cash and cash equivalents at beginning of the period	1,504,346	749,940
Effect of exchange rate changes	346	(499)
Cash and cash equivalents at end of the period	479,737	1,201,662

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 46 were approved for issue by the Board on 26 August 2022.

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 47 to 72 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 2022 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 2021. They have been prepared on the historical cost basis, except for investment properties and financial 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 2021. 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 3	Conceptual framework guidelines
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
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

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 2021 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 2021 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 currency swap agreements with major borrowing banks to manage the currency risk in related to the borrowings.

As at 30 June 2022, if RMB had weakened/strengthened by 1% (2021: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, net profit for the six months ended 30 June 2022 would have been approximately RMB931,000 (31 December 2021: approximately RMB1,021,000) higher/lower. If RMB had weakened/strengthened by 1% (2021: 1%) against HKD and USD denominated borrowings with all other variables held constant, financial costs for the year would have been approximately RMB9,699,000 (31 December 2021: approximately RMB21,071,000) 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, contract assets and financial assets at amortised cost 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 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 2022, the ageing analysis of trade receivables is set out in Note 16.

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 2022 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 RMB60,659,000 was recognised as at 30 June 2022 (31 December 2021: approximately RMB56,898,000). The expected loss rate for trade receivables and the loss allowance provision as at 30 June 2022 and 31 December 2021 are illustrated as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 30 June 2022				
Expected loss rate	1.61%	9.6%	29.84%	
Gross carrying amount (RMB'000)	2,065,026	131,030	49,766	2,245,822
Loss allowance provision (RMB'000)	(33,225)	(12,583)	(14,851)	(60,659)
	<u>2,031,801</u>	<u>118,447</u>	<u>34,915</u>	<u>2,185,163</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 2021				
Expected loss rate	1.97%	2.94%	30.48%	
Gross carrying amount (RMB'000)	1,238,288	467,025	61,554	1,766,867
Loss allowance provision (RMB'000)	(24,405)	(13,732)	(18,761)	(56,898)
	<u>1,213,883</u>	<u>453,293</u>	<u>42,793</u>	<u>1,709,969</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 2022, the Group recognised loss allowance of approximately RMB3,997,000 (year ended 31 December 2021: approximately RMB21,586,000) on the trade receivables. The movement in the loss allowance for trade receivables is summarised below.

	30 June 2022 RMB'000	31 December 2021 RMB'000
At the beginning of the Reporting Period	56,898	35,312
Increase in allowance, net	3,997	21,586
Transfer to assets classified as held for sale	(236)	–
	<hr/>	<hr/>
At the end of the Reporting Period	60,659	56,898

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

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 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, amounts due from customers for construction contracts, other receivables, contract assets and financial assets at amortised cost as at 30 June 2022 (31 December 2021: 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

5.3 Credit risk (Continued)

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

On the basis as stated, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts, other receivables (except for the tax rebate which are not financial assets), financial assets at amortised cost and contract assets amounted to approximately RMB69,818,000 (31 December 2021: approximately RMB63,818,000) was recognised at 30 June 2022 as follows:

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Contract assets	Total
As at 30 June 2022						
Expected loss rate	1.13%	3.76%	1.15%	3.33%	0%	
Gross carrying amount (RMB'000)	2,570,660	566,953	820,345	300,000	249,825	4,507,783
Loss allowance provision (RMB'000)	(29,034)	(21,337)	(9,447)	(10,000)	–	(69,818)
	<u>2,541,626</u>	<u>545,616</u>	<u>810,898</u>	<u>290,000</u>	<u>249,825</u>	<u>4,437,965</u>
Credit-impaired	No	No	No	No	No	
	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Contract assets	Total
As at 31 December 2021						
Expected loss rate	0.01%-1.1%	0.5%-4%	0.3%-1%	2%	0%	
Gross carrying amount (RMB'000)	2,766,848	603,836	1,047,743	300,000	249,825	4,968,252
Loss allowance provision (RMB'000)	(29,034)	(21,337)	(7,447)	(6,000)	–	(63,818)
	<u>2,737,814</u>	<u>582,499</u>	<u>1,040,296</u>	<u>294,000</u>	<u>249,825</u>	<u>4,904,434</u>
Credit-impaired	No	No	No	No	No	

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/contract assets (Continued)*

As at 30 June 2022, the Group recognised loss allowance of approximately RMB6,000,000 (year ended 31 December 2021: approximately RMB38,007,000) on the receivables under service concession arrangements, amounts due from customers for construction contracts, other receivables, financial assets at amortised cost and contract assets. The movement in the loss allowance for trade receivables is summarised below.

	30 June 2022 RMB'000	31 December 2021 RMB'000
At the beginning of the Reporting Period	63,818	25,811
Increase in allowance	6,000	38,007
At the end of the Reporting Period	69,818	63,818

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 2022 (Unaudited)					
Borrowings	2,958,995	1,611,852	1,281,655	127,537	5,980,039
Financial liabilities included in trade and other payables	667,621	–	–	–	667,621
	3,626,616	1,611,852	1,281,655	127,537	6,647,660
	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 2021(Audited)					
Borrowings	4,448,889	1,105,646	956,400	366,354	6,877,289
Financial liabilities included in trade and other payables	610,789	–	–	–	610,789
	5,059,678	1,105,646	956,400	366,354	7,488,078

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 2022:

At 30 June 2022 (Unaudited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Investment properties	–	–	276,377	276,377

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2021 on a recurring basis:

At 31 December 2021 (Audited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets/(liabilities)				
Cross currency swap classified as financial liabilities at FVPL	–	(110,450)	–	(110,450)
Investment properties	–	–	276,377	276,377

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.5 Fair value estimation (Continued)

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

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;
- Amounts due from customers for construction contracts;
- Financial assets at amortised cost;
- Contract assets;
- Cash and bank balances;
- Restricted funds;
- Term deposits with initial term of over three months;
- Trade and other payables (except for advance from customers); and
- Borrowings.

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

6 SEGMENT AND REVENUE INFORMATION

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

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

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

The executive Directors 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 tax payables.

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2022 and 2021 are set out as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	587,185	589,555
Operating services – under TOO model	436,552	430,775
Operating services – under TOT/BOT model	118,662	68,860
Construction services – under BT model	2,906	686
Construction services – under BOT model	–	56,445
Finance income	29,065	32,789
Reclaimed water supply and running water supply	58,965	103,699
Operating services – under TOO model	15,177	20,161
Operating services – under TOT/BOT model	15,606	4,832
Construction services – under BT model	–	–
Construction services – under BOT model	18,747	58,513
Finance income	9,435	20,193
Others	262,941	199,162
Management services	173,855	96,750
Transportation services	3,739	4,245
Construction services – under BT model	–	18,379
Construction services – under BOT model	–	3,516
Thermoelectricity services	84,475	57,708
Others	872	18,564
	909,091	892,416

6 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2022 is as follows:

Business segment	For the six months ended 30 June 2022 (Unaudited)			
	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	587,185	58,965	262,941	909,091
Segment gross profit	262,815	29,556	100,567	392,938
Segment profit	228,821	22,978	96,150	347,949
Finance income				22,409
Finance costs				(163,127)
Share of results of associates				(363)
Profit before tax				206,868
Other information				
Depreciation of property, plant and equipment	61,909	2,800	35,717	100,426
Depreciation expense of right-of-use assets	3,270	328	1,605	5,203
Amortisation of intangible assets	9,624	583	1,123	11,330
Impairment loss on trade receivables	4,000	–	(3)	3,997
Impairment loss on financial assets at amortised cost	–	–	4,000	4,000
Capital expenditure	148,190	1,413	25,930	175,533
Business segment	As at 30 June 2022 (Unaudited)			
	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Segment assets	7,006,029	703,543	3,437,744	11,147,316
Unallocated:				
Deferred income tax assets				83,063
Investments in associates				12,430
Total assets				11,242,809
Segment liabilities	4,133,692	415,104	2,028,335	6,577,131
Unallocated:				
Deferred income tax liabilities				68,950
Tax payables				79,205
Total liabilities				6,725,286

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 2021 is as follows:

For the six months ended 30 June 2021 (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	589,555	103,699	199,162	892,416
Segment gross profit	268,068	32,641	33,540	334,249
Segment profit	225,557	22,288	28,779	276,624
Fair value loss on financial liabilities at FVPL				(21,864)
Finance income				44,094
Finance costs				(95,733)
Share of results of associates				(179)
Profit before tax				202,942
Other information				
Depreciation of property, plant and equipment	88,415	16,528	9,462	114,405
Depreciation expense of right-of-use assets	3,196	529	3,027	6,752
Amortisation of intangible assets	8,458	578	—	9,036
Capital expenditure	22,691	4,211	12,885	39,787
As at 31 December 2021 (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	8,641,125	1,211,764	2,117,766	11,970,655
Unallocated:				
Deferred income tax assets				84,490
Investments in associates				12,793
Total assets				12,067,938
Segment liabilities	5,910,426	546,681	991,034	7,448,141
Unallocated:				
Deferred income tax liabilities				86,492
Tax payables				97,494
Total liabilities				7,632,127

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	
	2022	2021
	RMB'000	RMB'000
Customer A	440,592	263,549
Customer B	N/A*	132,285
Customer C	162,485	N/A*

* The corresponding revenue did not contribute 10% or more of the Group's revenue.

The customer portfolio of the Group is concentrated, which is consistent with the industry practice. If the customer A, customer B or customer C 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	
	2022	2021
	RMB'000	RMB'000
At fair value		
At the beginning of the Reporting Period	276,377	273,755
Change in fair value	<u>—</u>	<u>314</u>
At the end of the Reporting Period	<u>276,377</u>	<u>274,069</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 2022, a fair value gain of approximately RMB0 (30 June 2021: approximately RMB314,000) was recognised in the consolidated income statement.

The value of the Group's investment properties is determined by the Directors 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	Income approach	Weighted average market rent, ranging from RMB34.58/sq.m. to RMB40.27/sq.m.	0.5%	+ The higher adjusted market rent, the higher fair value of the investment properties, and vice versa	Increase/decrease of 0.5% in market yield result in increase/ decrease in fair value by RMB11,319,000/ RMB11,319,000

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 2022.

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 2022			
At the beginning of the Reporting Period	424,945	–	424,945
Depreciation	(5,203)	–	(5,203)
At the end of the Reporting Period	<u>419,742</u>	<u>–</u>	<u>419,742</u>
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>

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 2022						
At the beginning of the Reporting Period	1,770,084	597,487	60,167	8,275	201,077	2,637,090
Additions (a)	248	2,249	6,703	6,455	159,878	175,533
Transfers to assets classified as held for sale	(495)	(3)	(1,060)	(54)	(4,116)	(5,728)
Others	-	-	-	-	(2,128)	(2,128)
Disposals	-	(7)	(5)	(305)	-	(317)
Depreciation (Note 27)	(49,406)	(45,562)	(3,564)	(1,894)	-	(100,426)
At the end of the Reporting Period	<u>1,720,431</u>	<u>554,164</u>	<u>62,241</u>	<u>12,477</u>	<u>354,711</u>	<u>2,704,024</u>
	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)						
Six months ended 30 June 2021						
At the beginning of the Reporting Period	1,823,021	688,203	54,902	10,618	263,954	2,840,698
Additions	239	5,643	1,252	224	27,269	34,627
Transfers to investment properties	53,774	21,374	-	-	(76,756)	(1,608)
Disposals	(3)	(71)	-	-	-	(74)
Depreciation (Note 27)	(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>

(a) For the six months ended 30 June 2022, additions were approximately RMB175,533,000 and the depreciation was approximately RMB100,426,000.

(b) The net book values of property, plant and equipment pledged as collateral for the Group's borrowings (Note 21) as at the respective balance sheet dates were as follows:

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Buildings and facilities	526,928	324,140
Machinery and equipment	492,002	431,044
	<u>1,018,930</u>	<u>755,184</u>

10 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	5,899	5,495
Loss allowance	(58)	(32)
	<u>5,841</u>	<u>5,463</u>
Non-current portion:		
Receivables under service concession arrangements	2,564,761	2,761,353
Loss allowance	(28,976)	(29,002)
	<u>2,535,785</u>	<u>2,732,351</u>
	<u><u>2,541,626</u></u>	<u><u>2,737,814</u></u>

11 INTANGIBLE ASSETS

	Computer software RMB'000	Operating concession RMB'000	Total RMB'000
(Unaudited)			
Six months ended 30 June 2022			
Opening net book value	8,272	305,222	313,494
Transfers to assets classified as held for sale	–	(1,275)	(1,275)
Amortisation (Note 27)	(1,695)	(9,635)	(11,330)
	<u>6,577</u>	<u>294,312</u>	<u>300,889</u>
Closing net book value	<u><u>6,577</u></u>	<u><u>294,312</u></u>	<u><u>300,889</u></u>
	Computer software RMB'000	Operating concession RMB'000	Other intangible assets RMB'000
(Unaudited)			
Six months ended 30 June 2021			
Opening net book value	9,592	319,697	–
Additions	–	–	2,645
Transfer	1,608	–	–
Amortisation (Note 27)	(7,337)	(1,699)	–
	<u>3,863</u>	<u>317,998</u>	<u>2,645</u>
Closing net book value	<u><u>3,863</u></u>	<u><u>317,998</u></u>	<u><u>2,645</u></u>
			Total RMB'000
			329,289
			2,645
			1,608
			(9,036)
			324,506

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 2022 RMB'000	Audited 31 December 2021 RMB'000
Unlisted shares		
Share of net assets	3,088	3,451
Goodwill	9,342	9,342
At the end of the Reporting Period	<u>12,430</u>	<u>12,793</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 30 June 2022	Audited 31 December 2021	
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 Quianxiang 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

* English translation for identification purpose only.

12 INVESTMENTS IN ASSOCIATES (CONTINUED)

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 2022	<u>4,811</u>	<u>1,723</u>	<u>192</u>	<u>(363)</u>	<u>3,088</u>
For the year ended 31 December 2021	<u>4,601</u>	<u>1,150</u>	<u>279</u>	<u>(1,728)</u>	<u>3,451</u>

Note: The Group has not recognised the share of loss of one of the associates for the period as its interest in such associate has been reduced to RMB0 and its recognition is limited to RMB0. The unrecognised share of loss for the period and accumulated share of losses up to and as at 30 June 2022 are approximately RMB37,000 and RMB1,024,000 respectively.

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	18,245	41,030
– to be recovered after more than 12 months	<u>64,818</u>	<u>43,460</u>
	<u>83,063</u>	<u>84,490</u>
Deferred income tax liabilities:		
– to be recovered within 12 months	2,064	767
– to be recovered after more than 12 months	<u>66,886</u>	<u>85,725</u>
	<u>68,950</u>	<u>86,492</u>

Movements in deferred income tax assets and liabilities during the six months ended 30 June 2021 and 2022 (without taking into consideration the offsetting of balance within the same tax jurisdiction) are as follows:

	Unaudited Six months ended 30 June 2022 RMB'000	2021 RMB'000
Deferred income tax assets		
At the beginning of the period	84,490	73,606
Recognised in profit or loss (<i>Note 29</i>)	(1,386)	3,724
Transfer to assets classified as held for sale	<u>(41)</u>	<u>–</u>
At the end of the period	<u>83,063</u>	<u>77,330</u>

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred income tax assets as at 30 June 2022 and 2021 were mainly related to government grant, tax losses carried forward as well as depreciation and amortisation differences arising from the revaluation results on certain wastewater treatment facilities and right-of-use assets and other relevant non-current 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	
	2022	2021
	RMB'000	RMB'000
Deferred income tax liabilities		
At the beginning of the period	86,492	82,246
Recognised in profit or loss (Note 29)	(15,452)	4,115
Liabilities directly associated with assets classified as held for sale	(2,090)	–
At the end of the period	68,950	86,361

Deferred income tax liabilities were mainly related to fair value adjustment arising from acquisition of subsidiaries in previous years, differences arising from service concession receivables and differences arising from fair value as at 30 June 2022 and 2021.

* For identification purpose only

14 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

		Unaudited 30 June 2022	Audited 31 December 2021
	Note	RMB'000	RMB'000
Derivatives not designated as hedging instruments – Cross currency swap (“CCS”)	(a)	–	(110,450)
		–	(110,450)

(a) The maturities of the derivatives are expiring on 28 March 2022. The objective of these derivatives entered into by the Group is to mitigate the currency exposures arising from the bank borrowings.

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

The derivatives were fully settled during the period.

15 FINANCIAL ASSETS AT AMORTISED COST

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Unlisted investments (<i>Note</i>)	300,000	300,000
Loss allowance	(10,000)	(6,000)
	<u>290,000</u>	<u>294,000</u>

Note: On 29 September 2021, the Company (as the asset entrustor) entered into the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital Management Co., Ltd. (as the asset manager) and China Merchants Bank (as the asset trustee) in relation to the investment and management of the entrusted assets. Pursuant to the Mutual Trust No. 5 Asset Management Agreement, the Company agreed to entrust an amount of RMB300,000,000 as the entrusted assets, which will be funded by the internal resources of the Company. The entrusted assets will be used to invest in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd (“KADI”).

According to the relevant provisions of the Mutual Trust No. 5 Asset Management Agreement and the supplemental agreement for extension of term of the asset management agreement, the Mutual Trust No. 5 Asset Management Plan purchased by the Company has expired on 10 April 2022 (the “Maturity Date”). The asset manager allocated the assets under the Mutual Trust No. 5 Asset Management Plan to the Company in their current status as at the Maturity Date in accordance with the terms of the Mutual Trust No. 5 Asset Management Agreement.

The carrying value of financial assets at amortised cost was RMB300,000,000 and stated at the amortised cost less impairment loss. As at 30 June 2022, provision of loss amounted to RMB10,000,000 was made.

Such investments carried an interest rate at 8% p.a., and the principal is repayable within one year. As the Directors only intend to collect payments of principal and interest, it is classified as financial assets at amortised cost.

16 TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Trade receivables (Note (a)):		
– Third parties	246,736	107,999
– Related parties (Note 34 (d)(i))	412,382	277,462
– Local government	1,586,704	1,381,406
– Loss allowance	(60,659)	(56,898)
Trade receivables – net	2,185,163	1,709,969
Other receivables:		
– Third parties	164,280	149,949
– Related parties (Note 34 (d)(i))	598,006	865,438
– Local government	58,059	53,891
– Loss allowance	(9,447)	(7,447)
Other receivables – net	810,898	1,061,831
Prepayments:		
– Others	118,879	112,224
– Loss allowance	–	(4)
Prepayments – net	118,879	112,220
Trade and other receivables – net	3,114,940	2,884,020

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.

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Non-current portion:		
Wastewater treatment construction business	70,859	70,859
Water supply construction business	6,193	6,193
Other construction business	172,773	172,773
	249,825	249,825

16 TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS (CONTINUED)

Notes:

- (a) Contract assets relating to concession agreements for new wastewater treatment, water supply and other construction services are not yet collectible from the customer until the construction of new wastewater treatment, water supply and other infrastructure or upgrade services are completed. As a result, a contract asset is recognised over the period in which the construction of new wastewater treatment, water supply and other infrastructure or upgrade services are performed to represent the entity's right to consideration for the services transferred to date. The carrying amount of approximately RMB249,825,000 will be reclassified as receivables under concession agreements or intangible assets after completion of construction of new wastewater treatment, water supply and other infrastructure or upgrade services. As the contract assets are not expected to be settled within one year from the end of the Reporting Period, the whole balance is classified as non-current assets.
- (b) No provision for impairment loss on contract assets has been recognised during the period (31 December 2021: Nil).
- (a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, is as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
– Within one year	2,065,026	1,238,288
– Over one year and within two years	131,030	467,025
– Over two years	49,766	61,554
	<u>2,245,822</u>	<u>1,766,867</u>

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

17 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	21,914	23,340
Loss allowance	(521)	(555)
	<u>21,393</u>	<u>22,785</u>
Non-current portion:		
Amounts due from customers for construction contracts	545,039	580,496
Loss allowance	(20,816)	(20,782)
	<u>524,223</u>	<u>559,714</u>
	<u>545,616</u>	<u>582,499</u>

18 CASH AND CASH EQUIVALENTS

		Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Cash and bank balances	(a)	479,737	1,504,346
Restricted funds	(b)	<u>62,613</u>	<u>49,650</u>

(a) Cash and bank balances are denominated in:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
RMB	355,626	1,402,306
HKD	21,705	43,405
USD	<u>102,406</u>	<u>58,635</u>
	<u>479,737</u>	<u>1,504,346</u>

All deposits at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates at ranged from 0.01% to 2.25% during the six months ended 30 June 2022 (31 December 2021: 0.30% to 1.92%).

(b) As at 30 June 2022, restricted funds included guarantee deposits for construction projects and guarantee deposits for letters of credit (31 December 2021: including guarantee deposits for construction projects and guarantee deposits for letters of credit).

19 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
At 1 January 2022 and 30 June 2022 (Unaudited)	<u>1,029,111</u>	<u>1,029,111</u>
At 1 January 2021 and 30 June 2021 (Unaudited)	<u>1,029,111</u>	<u>1,029,111</u>

20 OTHER RESERVES

	Share premium <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Property revaluation surplus <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022	1,283,440	293,552	(47,793)	11,145	3,232	1,543,576
Currency translation differences	—	—	—	—	2,830	2,830
At 30 June 2022 (unaudited)	<u>1,283,440</u>	<u>293,552</u>	<u>(47,793)</u>	<u>11,145</u>	<u>6,062</u>	<u>1,546,406</u>
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)	<u>1,283,440</u>	<u>272,137</u>	<u>(47,793)</u>	<u>11,145</u>	<u>3,952</u>	<u>1,522,881</u>

21 BORROWINGS

	Unaudited 30 June 2022 <i>RMB'000</i>	Audited 31 December 2021 <i>RMB'000</i>
Non-current:		
Unsecured long-term borrowings	1,380,500	1,492,600
Secured long-term borrowings (<i>Note (b)</i>)	<u>1,500,487</u>	<u>700,423</u>
	<u>2,880,987</u>	<u>2,193,023</u>
Current:		
Unsecured short-term borrowings	2,167,476	2,129,226
Secured short-term borrowings (<i>Note (b)</i>)	564,962	2,044,877
Corporate bonds (<i>Note (c)</i>)	<u>39,709</u>	<u>38,811</u>
	<u>2,772,147</u>	<u>4,212,914</u>
	<u>5,653,134</u>	<u>6,405,937</u>

21 BORROWINGS (CONTINUED)

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

(b) As at 30 June 2022 and 31 December 2021, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Secured by:		
Corporate guarantee issued by the Company	1,292,263	2,183,819
Property, plant and equipment	773,186	561,481
Total	<u>2,065,449</u>	<u>2,745,300</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).

(d) The maturity of borrowings is as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
On demand or within 1 year	2,772,147	4,212,914
Between 1 and 2 years	1,586,080	1,020,349
Between 2 and 5 years	1,204,499	883,544
Over 5 years	90,408	289,130
	<u>5,653,134</u>	<u>6,405,937</u>

21 BORROWINGS (CONTINUED)

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Weighted average effective interest rates of borrowings	<u>4.50%</u>	<u>5.34%</u>

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

Interest rates of borrowings denominated in HKD and USD are reset periodically according to the benchmark rates of HIBOR and LIBOR respectively.

The Group's borrowings bear interest at floating rates, except for bank loans in an aggregate principal amount of approximately RMB3,915,186,000 (31 December 2021: approximately RMB2,896,815,000) bearing interest at fixed rates ranging from 2.50% to 5.40% (31 December 2021: ranging from 1.21% to 5.40%) per annum.

- (f) 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.

22 DEFERRED REVENUE

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Government grants related to:		
– property, plant and equipment	<u>236,834</u>	<u>245,267</u>
	<u>236,834</u>	<u>245,267</u>

The movement of government grants during the six months ended 30 June 2022 and 2021 is set out as follows:

	Unaudited Six months ended 30 June 30 June 2022 RMB'000	30 June 2021 RMB'000
At the beginning of the Reporting Period	245,267	248,429
Additions	–	10,360
Refunds	(1,985)	–
Credit to statement of profit or loss and other comprehensive income (Note 25)	<u>(6,448)</u>	<u>(6,653)</u>
At the end of the Reporting Period	<u>236,834</u>	<u>252,136</u>

23 TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Trade payables to third parties	193,801	317,188
Other payables due to:	130,634	183,428
– related parties (<i>Note 34 (d) (ii)</i>)	8,144	11,513
– local government	2,739	500
– third parties	119,751	171,415
Consideration payable for acquisition of subsidiaries	16,723	34,150
Staff salaries and welfare payables	26,191	42,898
Payables on acquisition of property, plant and equipment due to:	72,048	17,829
– related parties (<i>Note 34 (d) (ii)</i>)	16,040	16,040
– third parties	56,008	1,789
Payables on acquisition of land use rights from related parties (<i>Note 34 (d)(ii)</i>)	58,194	58,194
Dividend payables (<i>Note 31</i>)	102,911	–
Interest payables	31,600	7,537
Accrued taxes other than income tax	41,632	17,758
Total trade and other payables	<u>673,734</u>	<u>678,982</u>
	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Contract liabilities		
– local government	1,209	–
– third parties	8,588	7,505
	<u>9,797</u>	<u>7,505</u>

- (a) All trade and other payables of the Group were non-interest bearing, and their fair values, except for the advances from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.
- (b) The Group's trade and other payables are denominated in RMB.

23 TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES (CONTINUED)

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

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
– Within one year	80,951	198,579
– Over one year and within two years	24,858	37,523
– Beyond two years	87,992	81,086
	193,801	317,188

24 ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 29 June 2022, the Company and Fanchang Dianchi Water Treatment Co., Ltd. (“**Fanchang Dianchi**”), entered into the equity transfer agreement with the People’s Government of Suncun Town, pursuant to which the Company conditionally agreed to sell and the People’s Government of Suncun Town conditionally agreed to acquire 100% equity interest in Fanchang Dianchi, which is principally engaged in wastewater treatment, for a consideration not exceeding RMB163 million. Completion of this transaction would be subject to the certain conditions stated in the equity transfer agreement. Assets and liabilities of Fanchang Dianchi were reclassified as held for sale as at 30 June 2022.

The following assets and liabilities of Fanchang Dianchi were reclassified as held for sale as at 30 June 2022:

	Total
	RMB'000
Assets classified as held for sale	
Receivables under service concession arrangements	122,925
Property, plant and equipment	5,728
Intangible assets	1,275
Deferred income tax assets	41
Trade and other receivables	13,662
	143,631
Liabilities directly associated with assets classified as held for sale	
Deferred income tax liabilities	2,090
Trade and other payables	1,542
	3,632

25 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants:	7,029	10,396
– relating to property, plant and equipment (<i>Note 22</i>)	6,448	6,653
– relating to tax refund (<i>Note</i>)	203	3,743
– Others	378	–
Interest income from cash and cash equivalents	2,826	1,447
Fair value loss on financial liabilities at FVPL	–	(21,864)
Fair value change of investment properties (<i>Note 7</i>)	–	314
Rental income	5,933	6,457
Others	4,951	3,581
	20,739	331

Note:

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 fall into the catalogue and are qualified to enjoy 70% and 50% tax refund respectively.

26 OTHER LOSSES

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment – net	144	23
Donation expenses	–	79
Others	904	108
	1,048	210

27 EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 9)	100,426	114,405
Utilities, electricity and office expenditures	79,637	64,358
Employee benefit expenses	87,709	81,687
Costs of wastewater and water supply services	84,899	80,351
Cost of construction services	15,316	124,420
Taxes and levies	16,584	15,336
Repair and maintenance costs	12,709	9,235
Commission charge	496	4,665
Depreciation of right-of-use assets (Note 8)	5,203	6,752
Subcontracting costs	15,787	25,946
Professional expenses	15,055	9,059
Research and development expenses	185	118
Amortisation of intangible assets (Note 11)	11,330	9,036
Fuels expenses	68,837	40,628
Miscellaneous	56,663	36,688
	<hr/>	<hr/>
Total cost of sales, selling expenses, administrative expenses and research and development expenses	570,836	622,684
	<hr/>	<hr/>

28 FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income:		
– Interest income charged to related parties (Note 34(b)(iv))	22,409	44,094
	<hr/>	<hr/>
Finance costs:		
– Interest expenses	(135,671)	(118,118)
– Exchange (losses)/gains – net	(27,036)	23,392
– Others	(420)	(1,007)
	<hr/>	<hr/>
	(163,127)	(95,733)
	<hr/>	<hr/>
Finance costs – net	(140,718)	(51,639)
	<hr/>	<hr/>

29 INCOME TAX EXPENSES

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax	37,448	34,814
Deferred income tax (<i>Note 13</i>)	(14,066)	391
Income tax expenses	23,382	35,205

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 2022 and 2021, 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 2022 and 2021, 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.

30 EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
Profit for the period attributable to equity holders of the Company (<i>RMB'000</i>)	182,826	166,969
Weighted average number of ordinary shares in issue (<i>thousand</i>)	1,029,111	1,029,111
Basic earnings per share (<i>RMB</i>)	0.18	0.16

- (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 2022 and 2021.

31 DIVIDENDS

As approved by the 2021 annual general meeting of the Company held on 29 June 2022, the Company can distribute the final dividend for the year ended 31 December 2021 to all shareholders of the Company (the “Shareholders”) of RMB0.10 (tax inclusive) per share, amounting to RMB102,911,000 (tax included (the “2021 Final Dividend”). The declaration of the 2021 Final Dividend is not reflected in the dividend payable in the consolidated financial statements for the year ended 31 December 2021 but will be disclosed in the dividend distribution of the consolidated financial statements for the six months period ended 30 June 2022. The 2021 Final Dividend had been distributed to the Shareholders on 16 August 2022 in cash dividends.

32 CASH USED IN OPERATING ACTIVITIES

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

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit before tax	206,868	202,942
Adjustments for:		
– Depreciation of property, plant and equipment (Note 27)	100,426	114,405
– Depreciation of right-of-use assets (Note 27)	5,203	6,752
– Amortisation of intangible assets (Note 27)	11,330	9,036
– Government grants relating to purchase of property, plant and equipment (Note 25)	(6,448)	(6,653)
– Share of results of associates (Note 12)	363	179
– Finance costs – net	113,262	75,031
– Fair value gains on investment properties	–	(314)
– Fair value loss on derivative financial instruments	–	21,864
– Impairment losses on financial assets	9,997	15,093
– Loss on disposal of property, plant and equipment	154	23
– Exchange differences	(32,911)	(26,171)
	408,244	412,187
Changes in working capital:		
– Increase in trade and other receivables	(312,901)	(321,589)
– Increase in inventories	(1,701)	(1,706)
– Decrease in amounts due from customers for construction contracts	36,883	616
– Decrease/(increase) in receivables under service concession arrangements	78,243	(299,042)
– Decrease in deferred revenue relating to research and development activities	(1,985)	–
– Decrease in trade and other payables	(185,267)	(100,353)
– Increase in contract assets	–	(191,367)
– Increase in contract liabilities	2,292	514
Cash generated from/(used in) operations	23,808	(500,740)

33 COMMITMENTS

(i) Commitments under operating lease

The Group as lessor

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Within one year	16,558	13,855
One to two years	16,456	14,026
Two to five years	34,161	34,698
Over five years	11,218	23,904
	78,393	86,483

(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 2022 RMB'000	Audited 31 December 2021 RMB'000
Property, plant and equipment	307,657	317,311

34 RELATED PARTY TRANSACTIONS

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

The Company is controlled by KDI which is a government-related enterprise established in the PRC by the State-owned Assets Supervision and Administration Commission of the Kunming People's Government (昆明市人民政府國有資產監督管理委員會) ("Kunming SASAC"). In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group can exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The Directors believe that the information of related party transactions that are meaningful to the readers of the statements has been adequately disclosed in the financial information.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

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 2022 and 2021, and balances arising from related party transactions as at 30 June 2022 and 31 December 2021.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
KDI	Controlling shareholder of the Company
Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, “ Kunming DIG ”)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, “ IDI ”)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-owned Assets Management and Operation Co., Ltd.	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xinzhi Investment Development Co., Ltd. (昆明新置投資發展有限公司, “ Xinzhi Investment ”)	Controlled by Kunming SASAC and a minority 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 Bus Group Co., Ltd. (昆明公交集團有限責任公司, “ Kunming Bus ”)	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
KADI	Controlled by Kunming SASAC
Kunming Municipal Urban Construction Investment & Development Co., Ltd. (昆明市城建投資開發有限責任公司, “ Kunming Construction ”)	Controlled by Kunming SASAC

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2022 and 2021, 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	
	2022	2021
	RMB'000	RMB'000
KDI	3,794	2,123

(ii) Loans granted to related parties:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Xindu Investment	250,000	–
Kunming Construction	310,000	–
Kunming Bus	–	300,000
Kunming DIG	–	350,000
	560,000	650,000

The transactions under finance arrangements among the Group and Xindu Investment, Kunming Construction, Kunming Bus and Kunming DIG are interest bearing at 7.5% to 9.0% per annum respectively and repayable within one year.

(iii) Loans repaid from related parties:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Kunming Bus	300,000	300,000
Xindu Investment	350,000	–
Kunming DIG	–	350,000
	650,000	650,000

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (Continued)

(iv) Interest income from related parties:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Kunming DIG	–	11,745
Xindu Investment	11,176	11,461
Kunming Bus	3,952	11,007
KADI	5,918	9,881
Kunming Construction	1,363	–
	<u>22,409</u>	<u>44,094</u>

(v) Management services provided to related parties:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
KDI	162,485	67,076
Kunming Construction	4,258	–
	<u>166,743</u>	<u>67,076</u>

(vi) Commission charged by related parties:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Kunming CGE	204	3,969
Kunming Qingyuan	289	696
	<u>493</u>	<u>4,665</u>

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries, wages and bonuses	646	782
Contributions to pension plans	169	185
Housing fund, medical insurance and other social insurance	134	154
	<u>949</u>	<u>1,121</u>

(d) Balances with related parties

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

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
KDI	407,741	241,076
Xindu Investment	279,269	564,106
Kunming CGE	–	25,736
Kunming Qingyuan	–	10,650
Kunming Construction	316,544	–
Kunming Bus	–	300,415
KADI	6,834	917
	<u>1,010,388</u>	<u>1,142,900</u>

Other receivables are all non-trade receivables and will be settled upon demand of the Group except for Kunming Construction, Kunming DIG, Kunming Bus and Xindu Investment which are interesting bearing at 8.5%, 7.5%, 8.5% and 7.0% to 9.0% per annum respectively and repayable within one year.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (Continued)

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
<i>Acquisition of property, plant and equipment:</i>		
Xindu Investment	16,040	16,040
<i>Acquisition of land use rights:</i>		
KDI	27,194	27,194
Xindu Investment	31,000	31,000
<i>Others:</i>		
KDI	8,144	10,884
Kunming CGE	–	451
Kunming Qingyuan	–	178
	82,378	85,747

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 2022 RMB'000	Audited 31 December 2021 RMB'000
KADI	290,000	294,000

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

In the first half of 2022, the “triple pressure” on China’s economy increased again due to the impact of the Russia-Ukraine crisis and sanctions, a new round of the pandemic and preventive and control policies, which led to a decline in both supply and demand and a slowdown in economic growth. However, in general, China’s macro economy remained resilient despite the impact of unexpected and unpredictable factors.

The year 2022 is a critical year for the further implementation of the “14th Five-Year” Plan and in-depth implementation of the tasks of pollution control and prevention. In January 2022, China issued the “Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure”, which expressly stated that the construction of environmental infrastructure in cities and towns shall be accelerated, and it is necessary to improve wastewater collection and treatment and recycling facilities, promote full coverage of urban wastewater pipelines, and promote the “integration of plants and networks” for domestic wastewater collection and treatment facilities; meanwhile, it shall implement preferential fiscal and tax policies on environmental treatment, environmental services and other relevant sectors, and actively create a standardised and open market environment. In 2022, China will continue to improve the ecological environment, promote green and low-carbon development, increase efforts in pollution control, focus on key areas and critical links, and support the in-depth implementation of pollution prevention and control. The central government has allocated RMB23.7 billion in funding for water pollution prevention and control, an increase of 9.22%. As a result, the environmental protection industry will remain to have a positive outlook during the “14th Five-Year Plan” period.

The Company adheres to the strategic guidance of “unitary domination with diversified development”, focuses on wastewater treatment and develops in various business sectors in upstream and downstream industries such as water supply, wastewater recycling and solid waste treatment and disposal. In the first half of 2022, we accelerated the investment and construction progress of our existing projects and promoted cost reduction and efficiency enhancement of projects in operation, while exploring new business growth drivers. We enjoy exclusive rights to provide wastewater treatment services to Kunming and other regions of China. Leveraging our concession-based business model, technology, the capability of project implementation, and expansion of service regions, we laid the foundation for stable revenue and steady business growth as the Company continues to grow steadily.

1. Overview of Wastewater Treatment Industry

During the “13th Five-Year Plan” period, China’s urban wastewater treatment capacity has been significantly improved, but the problem of unbalanced and insufficient development still exists, and there is still a gap from the goal of building a high-quality urban wastewater treatment system. Since the start of the “14th Five-Year Plan” period, in order to continue to implement the critical task of pollution prevention and control, systematically promote carbon reduction, efficiency enhancement and recycling in the field of wastewater treatment, realise green development and the goal of carbon peaking and carbon neutrality, and promote the high quality and sustainable development of the ecological environment, China has progressively introduced a series of long-term policies.

In order to strengthen the protection of the ecological environment, actively make up for the shortcomings and overcome the weaknesses in the field of urban wastewater treatment, and comprehensively improve the quality of wastewater collection and treatment, in January 2022, China issued the “Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure”, which proposed that by 2025, China shall increase the wastewater treatment capacity by 20 million cubic metres per day, reach a wastewater treatment rate of over 95% in counties, and achieve a wastewater recycling rate of over 25% in water-scarce cities at the prefecture level and above.

In respect of environmental treatment in agricultural and rural areas, the problem of dark and odorous water in rural areas is prominent. The “14th Five-Year Plan for Protection of Soil, Groundwater and Rural Ecological Environment” proposed to strengthen the efforts in treatment of rural domestic wastewater. The “14th Five-Year Plan for Energy Conservation and Emission Reduction” of the State Council pointed out that a mechanism shall be established to allocate local financial input for the operation and maintenance of rural domestic wastewater treatment facilities at all levels; and establish a sound mechanism for the dynamic adjustment of urban wastewater treatment fee charging standards to help ensure the normal operation and healthy development of the wastewater treatment industry.

In July 2022, Yunnan Province published the “14th Five-Year Plan for Comprehensive Treatment of Water Environment in Key Watersheds in Yunnan Province”, which proposed to focus on nine highland lakes and six major waterways, co-ordinate the key tasks of water pollution prevention and control, water environment protection and water ecosystem restoration, and systematically promote the construction of water pollution prevention and control, comprehensive water environment treatment and water source protection projects by focusing on three aspects of prevention, protection and treatment. During the “14th Five-Year Plan” period, the wastewater treatment industry still has great development potential.

2. Overview of Reclaimed Water Industry

Wastewater recycling and reuse is an important way to alleviate the shortage of water resources. In recent years, China has been actively promoting wastewater recycling, but the construction of wastewater recycling facilities still lags behind, which has yet to form a pattern of water supply based on demand and quality. In January 2022, China's "Guiding Opinions on Accelerating the Construction of Environmental Infrastructure in Cities and Towns" proposed to build, renovate and expand the production capacity of reclaimed water to not less than 15 million m³ per day by 2025. The "14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resource Utilisation" specified the development goals, important tasks and key projects for wastewater recycling in China, which signified that wastewater recycling has been elevated to a national action plan. In October 2021, five ministries and commissions, including the National Development and Reform Commission, issued the "14th Five-Year Plan for Building a Water-Saving Society", which emphasized on improving the water conservation standard system, promoting wastewater recycling, in-depth implementation of the National Water Conservation Action and comprehensive construction of a water-saving society.

Making full use of renewable resources is one of the important approaches to achieve the goal of carbon peaking and carbon neutrality. By reusing reclaimed water, pollution sources and pollutant emissions can be reduced, thus achieving the goal of reducing carbon emissions. As such, the reuse of reclaimed water has great development potential and is of great significance.

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 scale of urban water supply will continue to expand in certain less developed areas with the further advancement of urbanisation in China.

The 2022 National Water Resources Working Conference pointed out that the Ministry of Water Resources will further promote the integration of urban and rural water supply, the large-scale development of rural water supply and the standardised transformation of small water supply projects. In addition, the in-depth implementation of the Administrative Measures for Urban Water Supply Prices and the Measures for Monitoring the Costs and Pricing of Urban Water Supply will have a positive impact on water supply enterprises in terms of eliminating unreasonable charges, enabling favourable pricing and achieving sustainable development. The accelerating urbanisation of China and the continuous implementation of the development strategy of urban-rural water supply integration will become an inexhaustible impetus for the sustainable development of the water industry, and will also impose higher requirements on the high-quality development of the water industry.

II. DEVELOPMENT STRATEGY AND FUTURE PROSPECTS

Looking ahead to the second half of 2022, the external environment will remain relatively uncertain, China's economic development will face the triple pressure of shrinking demand, supply shock and weakening expectations, and improvement in domestic demand will be the key to stabilising the macro economy. In terms of domestic development, with a large market, a complete industrial supply chain and rapid development of technological innovation, China's economic fundamentals remain positive in the long term.

Under the guidance of key national strategic plans such as the "14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resource Utilisation", the "Guiding Opinions on Accelerating the Construction of Urban Environmental Infrastructure" and the "14th Five-Year Plan for Development of Environmental Protection Industry" in Yunnan Province, the Company upholds the business direction of "unitary domination with diversified development" and adheres to the development strategy of "seeking progress while maintaining stability and improving quality and efficiency", and strives to enhance its capability of comprehensive ecological environment treatment. In the future, on top of continuous development in our existing business market, we will closely follow the direction of the industry policies and actively make investment in the upstream and downstream of the industry chain in various sectors such as watershed management, high-quality reclaimed water supply, construction of intelligent water plants, sludge resource utilisation, mine restoration and solid waste treatment and disposal, so as to seize the market benefits of high-quality development. Meanwhile, we will ensure a steady improvement in the operating performance of our core businesses, continue to optimize and improve our corporate governance and risk management mechanisms, actively seize the potential development opportunities arising from the strategic development plan of "Building Yunnan Province into a Leader in Construction of Ecological Civilisation", and continue to focus on high-quality projects and relevant opportunities for mergers and acquisitions in the market, so as to seek progress while maintaining stability and steadily facilitate the high-quality and sustainable development of the Company.

III. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO model. For the six months ended 30 June 2022, our TOO projects contributed to 52.5% of our total revenue. Our TOT and BOT projects contributed to 18.2% of our total revenue, and 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 at 30 June 2022, we had a total of 49 water plants under concession agreements (including wastewater treatment plants and running water plants), of which 47 were in operation and 2 were under construction. Among such 47 water plants in operation, 14 were TOO projects, 22 were TOT projects, 9 were BOT projects and 2 were BOO projects.

Wastewater Treatment Projects

As at 30 June 2022, we had a total of 40 wastewater treatment plants in operation (including 14 in the main city of Kunming and 26 in other areas of China), with a total wastewater treatment capacity of 2.04 million m³ per day. We also had 1 wastewater treatment plant under construction in Yunnan Province, PRC. Additionally, our management services facilities have a total designed wastewater treatment capacity of 0.5 million m³ per day. We have been entrusted to operate and manage rural domestic sewage collection and treatment facilities in 886 villages, covering 19 towns. 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 at 30 June 2022, 96.2% 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 formed a variety of effluent water quality standards such as Class I Category A standard, super limited phosphorus removal and DF membrane process. Currently, Kunming has established 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, realising joint development of social benefits and economic benefits. In the first half of 2022, we actively facilitated the construction progress of various upgrading and transformation projects, and at present, except for the 3 plants which have been completed and are undergoing commissioning, all other wastewater treatment plants of the Company have reached Class I Category A discharge quality standard.

Reclaimed Water Business

For our reclaimed water business, as at 30 June 2022, 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 is concentrated in Kunming. The main users include 14 categories of users such as residential communities, government/enterprises and institutions, landscape green sprinkling and sanitation. In addition to using reclaimed water supplied by reclaimed water treatment stations and the water supply network for urban usage, we have also studied and proposed solutions to the problems of the lack of effective ecological water replenishment, drought and disconnection of rivers after the implementation of diversion of clean water and sewage flow and sewage interception projects in some rivers in Kunming by recharging 7 rivers with reclaimed water that meets the water quality standards for river water replenishment through pumping stations and water replenishment networks. Since the water replenishment, the relevant rivers have not only successfully passed the water quality test, but also presented a good ecological landscape with clear water and green riverbanks, significantly improving the local urban water environment. In 2022, Kunming was selected as a national demonstrative area for use and allocation of reclaimed water, and reclaimed water will be more widely used in production and daily life.

Running Water Business

For our running water business, as at 30 June 2022, we had 7 running water plants in operation in the PRC (of which 6 in Yunnan Province and one in Hunan Province) and 1 running water plant under construction.

Closely following continuous urbanisation in various parts of China and renewal of water supply facilities, coupled with the implementation of the rural revitalisation strategic plan to improve the water supply conditions in rural areas, we have been actively responding to the efforts of Yunnan Province to ensure water supply for rural revitalisation by assisting the government in the construction, operation and maintenance of water supply pipeline networks in counties and villages.

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended 30 June 2021, our revenue amounted to RMB892.4 million, and increased by 1.9% to RMB909.1 million for the six months ended 30 June 2022; our gross profit for the six months ended 30 June 2021 was RMB334.2 million and increased by 17.6% to RMB392.9 million for the six months ended 30 June 2022. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water supply, running water supply services and other segments accounted for 64.6%, 6.5% and 28.9% 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)	
	2022	2021
	RMB'000	RMB'000
Revenue	909,091	892,416
Cost of sales	<u>(516,153)</u>	<u>(558,167)</u>
Gross profit	392,938	334,249
Selling expenses	(3,788)	(6,686)
Administrative expenses	(50,710)	(57,713)
Research and development expenses	(185)	(118)
Net impairment losses on financial and contract assets	(9,997)	(15,093)
Other income	20,739	331
Other losses	<u>(1,048)</u>	<u>(210)</u>
Operating profit	347,949	254,760
Finance income	22,409	44,094
Finance costs	<u>(163,127)</u>	<u>(95,733)</u>
Finance costs – net	<u>(140,718)</u>	<u>(51,639)</u>
Share of results of associates	<u>(363)</u>	<u>(179)</u>
Profit before tax	206,868	202,942
Income tax expense	<u>(23,382)</u>	<u>(35,205)</u>
Profit for the period	183,486	167,737
Other comprehensive income/(loss) for the period	<u>2,830</u>	<u>(499)</u>
Total comprehensive income for the period	<u>186,316</u>	<u>167,238</u>

(a) Revenue

During the Reporting Period, our revenue amounted to RMB909.1 million, an increase of RMB16.7 million or 1.9% as compared to RMB892.4 million for the same period last year, primarily because:

Our revenue from wastewater treatment business decreased by RMB2.4 million or 0.4% from RMB589.6 million for the six months ended 30 June 2021 to RMB587.2 million for the six months ended 30 June 2022, the change in the current period was relatively small compared with the same period of last year.

Revenue from our water supply segment decreased by RMB44.7 million, or 43.1%, from RMB103.7 million for the six months ended 30 June 2021 to RMB59.0 million for the six months ended 30 June 2022, mainly attributable to the decrease in supply of reclaimed water and decrease in construction income from water supply projects during the Reporting Period.

Our revenue from other segments increased by RMB63.7 million or 32.0% from RMB199.2 million for the six months ended 30 June 2021 to RMB262.9 million for the six months ended 30 June 2022, mainly attributable to the increase in entrusted management service income during the Reporting Period.

(b) Cost of sales

During the Reporting Period, our cost of sales amounted to RMB516.2 million, representing a decrease of 7.5% as compared to RMB558.2 million for the same period last year, primarily because:

The cost of sales of our wastewater treatment segment increased by RMB2.9 million or 0.9% from RMB321.5 million for the six months ended 30 June 2021 to RMB324.4 million for the six months ended 30 June 2022, the change in the current period was relatively small compared with the same period of last year.

The cost of sales for our water supply segment decreased by RMB41.7 million or 58.6% from RMB71.1 million for the six months ended 30 June 2021 to RMB29.4 million for the six months ended 30 June 2022, mainly due to the decrease in construction investment and the decrease in operating costs of reclaimed water supply business during the Reporting Period.

Cost of sales of our other segments decreased by RMB3.2 million or 1.9% from RMB165.6 million for the six months ended 30 June 2021 to RMB162.4 million for the six months ended 30 June 2022, 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 43.2%, representing an increase of 5.7% as compared to 37.5% for the same period last year, primarily due to the increase in gross profit margin of water supply and other segments.

Our gross profit margin for the wastewater treatment segment decreased from 45.5% for the six months ended 30 June 2021 to 44.8% for the six months ended 30 June 2022, the change in the current period was relatively small compared with the same period of last year.

Our gross profit margin of water supply segment increased from 31.5% for the six months ended 30 June 2021 to 50.1% for the six months ended 30 June 2022, mainly due to the increase in proportion of income from water supply services and decrease in proportion of construction services, which resulting in increase in overall gross profit margin of the segment during the current period.

Our other segments' gross profit margin increased from 16.8% for the six months ended 30 June 2021 to 38.2% for the six months ended 30 June 2022, mainly due to the significant increase in entrusted management service income over cost during the Reporting Period.

(d) Selling expenses

During the Reporting Period, our selling expenses amounted to RMB3.8 million, representing a decrease of RMB2.9 million or 43.3% as compared to RMB6.7 million in the corresponding period of the previous year, mainly due to the decrease in sales handling fee and commission charge during the Reporting Period.

(e) Administrative expenses

During the Reporting Period, our administrative expenses amounted to RMB50.7 million, representing a decrease of RMB7.0 million compared to RMB57.7 million for the same period of the previous year.

(f) Other income

During the Reporting Period, our other income amounted to RMB20.7 million, representing an increase of RMB20.4 million as compared to RMB0.3 million for the same period of last year, which was mainly due to the change in loss from financial liabilities at fair value through profit or loss.

(g) Other losses

During the Reporting Period, our other losses amounted to RMB1.0 million, representing an increase of RMB0.8 million as compared to RMB0.2 million for the same period last year.

(h) Operating profit

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to RMB347.9 million, an increase of RMB93.1 million or 36.5% as compared to RMB254.8 million for the same period last year. Our operating margin during the Reporting Period was 38.3%.

(i) Finance income

During the Reporting Period, our finance income amounted to approximately RMB22.4 million, representing a decrease of RMB21.7 million as compared to that of approximately RMB44.1 million in the corresponding period of the previous year, which was mainly attributable to a decrease 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 RMB163.1 million, representing an increase of RMB67.4 million as compared to approximately RMB95.7 million in the corresponding period of last year which was mainly due to an increase in foreign exchange losses, which in turn led to an increase in finance costs.

(k) Profit before tax

During the Reporting Period, our profit before tax amounted to RMB206.9 million, as compared to RMB202.9 million for the same period last year, representing an increase of RMB4.0 million or 2.0%.

(l) Income tax

During the Reporting Period, our net income tax expense amounted to RMB23.4 million, a decrease of RMB11.8 million as compared to RMB35.2 million for the same period last year. The effective tax rate was 11.3%, a decrease of 6 percentage points as compared with the same period 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 RMB186.3 million, increased by 11.4% as compared to RMB167.2 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)	
	2022	2021
	RMB'000	RMB'000
Net cash used in operating activities	(142,639)	(663,222)
Net cash (used in)/generated from investing activities	(66,985)	183,185
Net cash (used in)/generated from financing activities	(815,331)	932,258
Net (decrease)/increase in cash and cash equivalents	(1,024,955)	452,221
Foreign exchange gains/(losses)	346	(499)
Cash and cash equivalents at beginning of the period	1,504,346	749,940
Cash and cash equivalents at end of the period	479,737	1,201,662

(a) Net cash used in operating activities

Our net cash used in operating activities primarily consists of cash received from our clients for services and products 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 RMB142.6 million, representing a decrease of RMB520.6 million as compared to net cash used in operating activities of RMB663.2 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 (used in)/generated from investing activities

Our net cash (used in) investing activities primarily includes purchase of property, plant and equipment, loans to related parties and other investments.

Our net cash (used in)/generated from investing activities decreased from RMB183.2 million generated for the six months ended 30 June 2021 to RMB67.0 million used for the six months ended 30 June 2022, mainly due to the change in cash flow from purchase of property, plant and equipment during the Reporting Period.

(c) **Net cash (used in)/generated from financing activities**

Our net cash (used in)/generated from financing activities primarily represents obtaining and repaying borrowings.

Our net cash (used in)/generated from financing activities decreased from RMB932.3 million generated for the six months ended 30 June 2021 to RMB815.3 million used for the six months ended 30 June 2022, mainly due to the change in cash flow from borrowings during the Reporting Period.

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 at 30 June 2022, 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	Planned use of net proceeds from the Initial Public Offering	Unused net proceeds from the Initial Public Offering	Actual use of net proceeds from the Initial Public Offering	Actual use of net proceeds from the Initial Public Offering	Unused net proceeds from the Initial Public Offering
	(as set out in the Prospectus)	(as set out in the Prospectus)	Offering as at 1 January 2022	2022 to the period ended 30 June 2022	Date to the period ended 30 June 2022	the Initial Public Offering
		RMB million	RMB million	RMB million	RMB million	RMB million
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	57.7	–	317.6	57.7
To acquire TOT/TOO wastewater treatment plants and running water supply projects	35%	375.3	85.6	–	289.7	85.6
Repayment of bank borrowings	20%	214.5	1.6	–	212.9	1.6
To supplement working capital and for general corporate purposes	10%	107.2	–	–	107.2	–
Effect of foreign exchange			6.6			6.6
Effect of interest income			0.4			0.6
Total	100%	1,072.3	151.9	–	927.4	152.1

As at 30 June 2022, the unused net proceeds from the Initial Public Offering for each of the business strategies as stated in the above table have been placed as deposits in licensed banks of the PRC which will be used in accordance with the progress of the Company's investment projects and are expected to be fully utilised by June 2023.

In order to enhance the efficiency of use of proceeds and reduce finance costs, on 5 July 2022, the Board considered and approved the resolution on change of use of net proceeds from the Company's global offering and the unutilised net proceeds are expected to be fully utilised by 30 June 2023 based on the changed use and utilisation plan. Please refer to the Company's announcement dated 5 July 2022 for further details. The business objectives, future plans and planned use of the proceeds as stated in the announcement were based on the best estimation and assumptions of future market conditions and industry developments made by the Company at the time of resolving on the change of use of proceeds, 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.

During the Reporting Period, the net proceeds from the Initial Public Offering were used according to the intentions previously disclosed in the Prospectus.

As at 30 June 2022, 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
	2022	2021
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	5,841	5,463
Inventories	18,296	16,595
Amounts due from customers for construction contracts	21,393	22,785
Financial assets at amortised cost	290,000	294,000
Trade and other receivables	3,114,940	2,884,020
Cash and bank balances	479,737	1,504,346
Restricted funds	62,613	49,650
Assets classified as held for sale	143,631	—
	<hr/>	<hr/>
Total current assets	4,136,451	4,776,859
	<hr/>	<hr/>

	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
Current liabilities		
Trade and other payables	673,734	678,982
Tax payables	79,205	97,494
Borrowings	2,772,147	4,212,914
Contract liabilities	9,797	7,505
Financial liabilities at fair value through profit or loss	–	110,450
Liabilities directly associated with assets classified as held for sale	<u>3,632</u>	<u>–</u>
Total current liabilities	<u><u>3,538,515</u></u>	<u><u>5,107,345</u></u>
Net current assets	<u><u>597,936</u></u>	<u><u>(330,486)</u></u>

As at 30 June 2022 and 31 December 2021, we recorded net current assets of RMB597.9 million and net current assets of RMB-330.5 million respectively. The increase in net current assets was mainly due to the decrease in borrowings.

(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 RMB5.8 million as at 30 June 2022, representing an increase of 5.5% from RMB5.5 million as at 31 December 2021, 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 RMB2,535.8 million as at 30 June 2022, representing a decrease of 7.2% from RMB2,732.4 million as at 31 December 2021.

(b) Inventories

Our total inventory increased from RMB16.6 million as at 31 December 2021 to RMB18.3 million as at 30 June 2022, representing an increase of RMB1.7 million or 10.2%, primarily due to an increase in inventory of coal of Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) (“**Hongyu Thermal Power**”).

For the six months ended 30 June 2022, our inventory turnover days were 6.1 days, an increase of 2.9 days as compared to the year ended 31 December 2021. The calculation for inventory turnover days was based on the average annual inventory divided by the sales cost recognised during the relevant period and multiplied by 180 days.

(c) Amounts due from customers for construction contracts

As at 30 June 2022, our amounts due from customers for construction contracts were approximately RMB545.6 million, decreased by RMB36.9 million as compared to RMB582.5 million as at 31 December 2021, which was mainly due to recovery of certain payment during the Reporting Period.

(d) Trade and other receivables

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties, 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.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Trade receivables:		
– Third parties	246,736	107,999
– Related parties	412,382	277,462
– Local government	1,586,704	1,381,406
– Loss allowance	(60,659)	(56,898)
	<u>2,185,163</u>	<u>1,709,969</u>
Trade receivables – net	<u>2,185,163</u>	<u>1,709,969</u>
Other receivables:		
– Third parties	164,280	149,949
– Related parties	598,006	865,438
– Local government	58,059	53,891
– Loss allowance	(9,447)	(7,447)
	<u>810,898</u>	<u>1,061,831</u>
Other receivables – net	<u>810,898</u>	<u>1,061,831</u>
Prepayments:		
– Others	118,879	112,224
– Loss allowance	–	(4)
	<u>118,879</u>	<u>112,220</u>
Prepayments – net	<u>118,879</u>	<u>112,220</u>
Trade and other receivables – net	<u>3,114,940</u>	<u>2,884,020</u>

As at 30 June 2022, our net trade and other receivables was approximately RMB3,114.9 million, increased by RMB230.9 million or 8.0% as compared to approximately RMB2,884.0 million as at 31 December 2021, primarily due to the increase in the provision of services and products and certain payment yet to be recovered during the Reporting 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
	2022	2021
	RMB'000	RMB'000
– Within one year	2,065,026	1,238,288
– Over one year and within two years	131,030	467,025
– Over two years	49,766	61,554
	2,245,822	1,766,867

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	Days	Days
Trade receivables turnover days ⁽¹⁾	385.6	223.3
Trade and other receivables turnover days ⁽²⁾	593.9	415.4

Notes:

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade receivables is used for the six months ended 30 June 2022 and the year ended 31 December 2021.
- (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 2022 and the year ended 31 December 2021.

4. Trade and Other Payables

Our trade and other payables primarily consist of trade payables, other 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, interest payables, and accrued taxes other than income tax.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Trade payables	193,801	317,188
Other payables	130,634	183,428
Consideration unpaid for acquisition of subsidiaries	16,723	34,150
Staff salaries and welfare payables	26,191	42,898
Payables on acquisition of property, plant and equipment	72,048	17,829
Payables on acquisition of land use rights from related parties	58,194	58,194
Dividend payables	102,911	–
Interest payables	31,600	7,537
Accrued taxes other than income tax	41,632	17,758
	673,734	678,982

As at 30 June 2022, our trade and other payables amounted to approximately RMB673.7 million, representing a decrease of RMB5.3 million or 0.8% as compared to approximately RMB679.0 million as at 31 December 2021.

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
	2022	2021
	RMB'000	RMB'000
– Within one year	80,951	198,579
– Over one year and within two years	24,858	37,523
– Over two years	87,992	81,086
	193,801	317,188

As at 30 June 2022 and 31 December 2021, 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
	2022	2021
	Days	Days
Trade payables turnover days ⁽¹⁾	113.7	138.3
Trade and other payables turnover days ⁽²⁾	235.9	157.9

Notes:

- (1) Calculated as the average trade 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 payables is used for the six months ended 30 June 2022 and the year ended 31 December 2021.
- (2) Calculated as the average trade and other 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 and other payables is used for the six months ended 30 June 2022 and the year ended 31 December 2021.

Our Directors confirmed that up to 30 June 2022, there was no material default in payment of trade payables.

5. Indebtedness

(a) Borrowings

All of our borrowings are denominated in RMB, HKD or USD and some are secured by our property, plant and equipment and some are secured by corporate guarantee issued by the Company. The following table shows our borrowings as at the dates indicated:

	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
Non-current:		
Unsecured long-term borrowings	1,380,500	1,492,600
Secured long-term borrowings	1,500,487	700,423
Total non-current borrowings	2,880,987	2,193,023
Current:		
Unsecured short-term borrowings	2,167,476	2,129,226
Secured short-term borrowings	564,962	2,044,877
Corporate bonds	39,709	38,811
Total current borrowings	2,772,147	4,212,914
Total borrowings	5,653,134	6,405,937
Average effective interest rates	4.50%	5.34%

As at 31 December 2021 and 30 June 2022, we had total borrowings of RMB6,405.9 million and RMB5,653.1 million, respectively. Among our debt, borrowings of RMB561.5 million and RMB773.2 million as at 31 December 2021 and 30 June 2022 were secured by property, plant and equipment, and borrowings of RMB2,183.8 million and RMB1,292.3 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 at 30 June 2022, 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 at 30 June 2022, 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 at the dates indicated:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
On demand or within 1 year	2,772,147	4,212,914
Between 1 and 2 years	1,586,080	1,020,349
Between 2 and 5 years	1,204,499	883,544
Over 5 years	90,408	289,130
	5,653,134	6,405,937

As at 31 December 2021 and 30 June 2022, our net gearing ratios (calculated as net debt divided by total capital at the end of the period. In particular, 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) were 52.2% and 53.1%, respectively, representing a decrease of 0.9 percentage points from that as at 31 December 2021, primarily due to the change in net debt and cash and cash equivalent during the current period.

Except as disclosed above, as at 30 June 2022, 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 2022	31 December
	RMB'000	2021
		RMB'000
Property, plant and equipment	307,657	317,311

(c) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB175.5 million for the six months ended 30 June 2022, representing an increase of 341.0% as compared to RMB39.8 million for the six months ended 30 June 2021.

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Wastewater treatment	148,190	22,691
Water supply	1,413	4,211
Others	25,930	12,885
	175,533	39,787

Based on our current business plan, we expect to incur capital expenditure amounting to RMB210.0 million for the year ending 31 December 2022. 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 2022, we had 1,529 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as at 30 June 2022:

Function	Number
Management and Administration	187
Finance	50
Research and Development	70
Quality Monitoring	268
Marketing	16
Operations	892
Construction and Maintenance	46
Total	<u>1,529</u>

We recruit our employees from the open market. The compensation for our employees includes basic wages, performance pay, bonuses and other staff benefits. Our employee benefits and labor expenses from January to June in 2021 amounted to RMB81.7 million, and our employee benefits and labor expenses from January to June in 2022 amounted to RMB87.7 million, representing an increase of approximately RMB6.0 million or 7.3% as compared to the same period of 2021.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we adopted a new employee internship management mechanism, a blended learning mechanism that combines centralised training and online training, on-the-job training, exchanges and rotations, apprenticeship learning and other talent 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 to ensure talents for the Company’s business development. At the same time, we own Kunming Dianshui Vocational Skills Training School Company Limited (昆明滇水職業技能培訓學校有限公司) 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 at 30 June 2022, the Group did not have any material contingent liability.

8. **Major Investment and Acquisition**

On 29 September 2021, the Company (as the asset entrustor) entered into the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital Management Co., Ltd. (博時資本管理有限公司) (“**Bosera Capital**”) (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited (招商銀行股份有限公司昆明分行) (“**China Merchant Bank**”) (as the asset trustee) in relation to the investment and management of the entrusted assets. Pursuant to the agreement, the Company agreed to entrust an amount of RMB300 million as the entrusted assets for investment in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. (昆明農業發展投資有限公司) (“**KADI**”) for a term of 3 months. The Company invested RMB300 million in the asset management plan. For details, please refer to the announcement of the Company dated 29 September 2021.

On 31 December 2021, the Company entered into a supplemental agreement in relation to the extension of the term of the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital and China Merchants Bank, extending the term of the Mutual Trust No. 5 Asset Management Agreement and the asset management plan thereunder to 10 April 2022. For details, please refer to the announcement of the Company dated 31 December 2021.

The Mutual Trust No. 5 Asset Management Agreement has expired on 10 April 2022. As at the maturity date, the remaining assets under the Mutual Trust No. 5 Asset Management Plan were creditor’s rights of the trade receivables with a carrying value of approximately RMB316,882,500. The asset manager allocated the assets under the Mutual Trust No. 5 Asset Management Plan to the Company in their current status as at the Maturity Date in accordance with the Mutual Trust No. 5 Asset Management Agreement.

As at the end of the Reporting Period, it accounted for approximately 2.6% of the total assets of the Company. As at the Latest Practicable Date, KADI has yet to repurchase such creditor’s rights of the trade receivables.

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 at 30 June 2022, the Group did not have any major investment and acquisition.

9. **Material Litigation**

During the Reporting Period, Hongyu Thermal Power, a subsidiary of the Company, was involved in a material litigation, and the Plaintiff has withdrawn its application for litigation against Hongyu Thermal Power during the Reporting Period, and such material litigation did not have a material impact on the Company’s financial position and operation. Details are as follows:

During the Reporting Period, Hongyu Thermal Power, as a defendant, was involved in a litigation in the Shaoxing Municipal Intermediate People's Court, Zhejiang Province (浙江省紹興市中級人民法院), where the plaintiff claimed that it had signed an equity transfer agreement with Hongyu Thermal Power and three other defendants on 7 March 2015, and applied to the Shaoxing Municipal Intermediate People's Court, Zhejiang Province to hold Hongyu Thermal Power and other defendants liable for the equity transfer consideration, late payment fee and other costs of approximately RMB140 million in relation to the dispute over the equity transfer agreement. For details, please refer to the Company's announcement dated 9 May 2022.

On 7 June 2022, the Plaintiff applied to the Court for withdrawal of the litigation against Hongyu Thermal Power and one of the remaining defendants. After examination, the Shaoxing Municipal Intermediate People's Court, Zhejiang Province ruled to allow the Plaintiff to withdraw the litigation against Hongyu Thermal Power and one of the remaining defendants. For details, please refer to the Company's announcement dated 15 June 2022.

Save as disclosed above, as at 30 June 2022, the Group was not involved in any material or potential material 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. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. The Group entered into a confirmation of RMB foreign exchange currency swap transactions with financial institution to fix 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:

The financial institution pays floating interest on the confirmation of swap transactions and the fixed interest payer is the Group. Before the Group pays each instalment of the foreign currency principal and interest, the financial institution will pay the equivalent currency into the Group's account. The Group can use the foreign currency to pay the principal and interest. At the same time, when the Group pays RMB to the financial institution, the interest rate is fixed. The nominal principal for calculating the interest is calculated by multiplying the principal in the loan agreement by the fixed exchange rate locked by the confirmation of swap transactions, 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.

11. Loans to Certain Entities

The Company entered into a entrusted loan contract with Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司) ("**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, pursuant to which the Company entrusted Bank of Communications to grant a loan of RMB300 million to Kunming Bus with an annual interest rate of 8.5%. For details, please refer to the announcement of the Company dated 22 February 2021. The loan has become due during the Reporting Period, and the Company has received all principal and interest in accordance with the terms of the entrusted loan contract.

The Company entered into an entrusted loan contract with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司) (“**Xindu Investment**”) and Kunming Panlong Sub-branch of Bank of China Limited (“**Panlong Sub-branch of Bank of China**”) on 24 September 2021, pursuant to which the Company entrusted Panlong Sub-branch of Bank of China to provide a RMB350 million loan to Xindu Investment with an annual interest rate of 7.5%. For details, please refer to the announcement of the Company dated 24 September 2021. The loan has become due during the Reporting Period, and the Company has received all principal and interest in accordance with the terms of the entrusted loan contract.

The Company entered into an entrusted loan contract with Xindu Investment and Chenggong District Rural Credit Cooperative (“**Chenggong District Rural Credit Cooperative**”) on 28 February 2022, pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a loan of RMB250 million to Xindu Investment with an annual interest rate of 8.5% which shall become due on 28 March 2022. After arm’s length negotiation, on 28 March 2022, the Company entered into the entrusted loan extension agreement for the entrusted loan contract with Xindu Investment and Chenggong District Rural Credit Cooperative to extend the term of the entrusted loan contract and the entrusted loan transaction thereunder to 28 July 2022 and adjust the interest rate to 9.0% per annum for the extension period. Meanwhile, the Company entered into the security contract with Xindu Investment, pursuant to which Xindu Investment agreed to mortgage the mortgaged asset as security for the entrusted loan extension agreement and the transactions thereunder. For details, please refer to the announcements of the Company dated 28 February 2022 and 28 March 2022. As at the Latest Practicable Date, the Company has received all principal and interest of such entrusted loan in accordance with the terms of the extension agreement.

On 9 June 2022, the Company entered into the entrusted loan contract with Kunming Municipal Urban Construction Investment & Development Co., Ltd. (昆明市城建設投資開發有限責任公司) (“**Kunming Construction**”) and Panlong District Rural Credit Cooperative (“**Panlong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Panlong District Rural Credit Cooperative to provide a loan of RMB310 million to Kunming Construction with an annual interest rate of 8.5% which shall become due on 8 June 2023. Kunming Dianchi Investment provided a full and joint liability guarantee for the entrusted loan transaction under the entrusted loan contract. For details, please refer to the announcement of the Company dated 9 June 2022.

As far as the Company is aware, Kunming Bus, Xindu Investment and Kunming Construction are all controlled or held by the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (昆明市人民政府國有資產監督管理委員會). Save for the above, Kunming Bus, Xindu Investment and Kunming Construction are not related to each other, 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, high-quality and sustainable development of the Company and enhances the comprehensive competitiveness of the Company. The Board has the responsibility to lead and oversee the Company and exercise control over the strategic planning, business development, compliance governance and culture promotion 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 B.2.2.

Under code provision B.2.2, 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. Therefore, the Board considers that deviations from provision B.2.2 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 2022.

VI. SHARE OPTION SCHEME AND ISSUANCE OF EQUITY SECURITIES

As at 30 June 2022, the Company or any of its subsidiaries had no share option schemes. During the Reporting Period, there was also no issuance of equity securities (including securities convertible into equity securities) for cash.

VII. AUDIT COMMITTEE

The Audit Committee of the Company consists of three independent non-executive Directors, namely Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Ong King Keung. The Audit Committee of the Company is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company to ensure the effective supervision of management by the Board and further improve corporate governance structure. The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2022 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VIII. 2022 INTERIM DIVIDEND

In view of the economic environment and the future development plan of the Company, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: cash dividend of RMB0.05 per share (tax inclusive)).

IX. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended 30 June 2022 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com).

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

Kunming, the PRC, 26 August 2022

As at the date of this announcement, the Board comprises Mr. Zeng Feng, 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. Ong King Keung, as independent non-executive Directors.