



DCWT 滇池水务

KUNMING DIANCHI WATER TREATMENT CO.,LTD

**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

臻於至善 源遠流長

CONSUMMATION AND SUSTAINABILITY



**2017 INTERIM
REPORT**

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CHAPTER ONE

CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY

昆明滇池水務股份有限公司

ENGLISH NAME OF THE COMPANY

Kunming Dianchi Water Treatment Co., Ltd.

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

WEBSITE OF THE COMPANY

www.kmdcwt.com

STOCK CODE

03768

LEGAL REPRESENTATIVE OF THE COMPANY

Ms. Guo Yumei

AUTHORIZED REPRESENTATIVES

Mr. Chiu Ming King FCIS, FCS
Mr. Luo Yun

JOINT COMPANY SECRETARIES

Mr. Yang Yang
Mr. Chiu Ming King FCIS, FCS

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

HONG KONG LEGAL ADVISER TO THE COMPANY

Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRC LEGAL ADVISER TO THE COMPANY

Yunnan Beichuan Law Firm
Room 101, Unit 1, Building 204
Jinxing District
Panlong District
Kunming, Yunnan Province
PRC

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

BOARD OF DIRECTORS

Executive Directors

Ms. Guo Yumei (*Chairperson*)
Mr. Luo Yun

Non-executive Directors

Mr. Zeng Feng
Ms. Song Hong

Independent Non-executive Directors

Mr. Wong Man Chung Francis
Mr. Yin Xiaobing
Mr. He Xifeng

CHAPTER ONE CORPORATE INFORMATION

BOARD COMMITTEES

Audit Committee

Mr. Wong Man Chung Francis (*Chairperson*)
Mr. Zeng Feng
Mr. Yin Xiaobing

Remuneration and Appraisal Committee

Mr. He Xifeng (*Chairperson*)
Ms. Guo Yumei
Mr. Yin Xiaobing

Nomination Committee

Mr. Yin Xiaobing (*Chairperson*)
Ms. Guo Yumei
Mr. He Xifeng

Strategy and Investment Decision Committee

Ms. Guo Yumei (*Chairperson*)
Mr. Luo Yun
Mr. Yin Xiaobing

BOARD OF SUPERVISORS

Mr. Na Zhiqiang (*Chairperson*)
Mr. Yao Jianhua
Mr. Shao Wei

PRINCIPAL BANKS

China Everbright Bank

Kunming Dianchi Road Sub-branch
Project & Design Unit Building
No. 1177 Dianchi Road
Xishan District, Kunming
Yunnan Province
PRC

China Minsheng Bank

Kunming Dianchi Road Sub-branch
No. 331 Huancheng South Road
Kunming
Yunnan Province
PRC

Ping An Bank

Kunming Chuncheng Sub-branch
1st Floor, Baifuqi Commercial Plaza
No. 32 Wujing Road
Guandu District, Kunming
Yunnan Province
PRC

Bank of Communications

Yunnan Branch
1st Floor Counter
Bank of Communications Building
No. 397 Baita Road
Panlong District, Kunming
Yunnan Province
PRC

China Merchants Bank

Kunming Shijicheng Sub-branch
1A and 1B, 1st Floor
Century Golden Recourses
International Business Center Tower 2
Kunming
Yunnan Province
PRC

CHAPTER TWO DEFINITIONS

“Bafang Water”	Guizhou Bafang Water Treatment Co., Ltd. (貴州八方水務有限公司), a subsidiary directly owned by the Group
“Board” or “Board of Directors”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this interim report only, Hong Kong, Macau and Taiwan
“Company” or “Issuer”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, PRC, with limited liability on December 23, 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary shares in the Company’s share capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by citizens of PRC and/or entities incorporated in PRC
“Group” or “we” or “our” or “us”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hongze Water”	Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限公司), a subsidiary directly owned by the Group

CHAPTER TWO DEFINITIONS

“Kunming Dianchi Investment”	Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, PRC with limited liability on October 13, 2004, which is a Controlling Shareholder of the Company
“Libao Water”	Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司), a subsidiary directly owned by the Group
“Listing Date”	the date, being April 6, 2017, on which the Company’s H Shares were listed and from which dealings therein were permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Malong Water”	Malong No.2 Running Water Plant (馬龍縣自來水二廠), a new project of the Group launched during the Reporting Period
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Qutang Water”	Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司), a subsidiary directly owned by the Group
“RMB” or “Renminbi”	the lawful currency of the PRC. Unless otherwise specified, the values contained in this interim report are denominated in RMB
“Reporting Period”	January 1, 2017 to June 30, 2017
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

CHAPTER THREE

GLOSSARY OF TECHNICAL TERMS

“BOO”	Build-Own-Operate, a project model under which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities. Such facilities are owned by the enterprise, and the enterprise has the right to operate such facilities in the concession period during which the enterprise can charge service fees based on the supplied treated wastewater or running water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility on behalf of the proprietor(s) for relevant fees to be paid by the proprietor(s) during and upon the completion of the construction
“CAGR”	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
“TOO”	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or running water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government

CHAPTER THREE GLOSSARY OF TECHNICAL TERMS

“TOT”	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or running water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“utilization rate”	the actual volume of water supplied or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
“wastewater treatment”	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innocuous substances so that wastewater can reach the standards allowing for it to be discharged into a water body or reused

CHAPTER FOUR SUMMARY OF FINANCIAL AND OPERATING DATA

I. FINANCIAL SUMMARY

	For the six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	479,359	424,701
Profit before income tax	158,278	152,008
Income tax expense	(25,499)	(22,595)
Profit for the period	132,779	129,413
Attributable to:		
The equity holders of the Company	132,337	129,263
Non-controlling interests	442	150
Other comprehensive loss for the period	(516)	–
Total comprehensive income for the period	132,263	129,413
Earnings per share for profit attributable to the equity holders of the Company during the period <i>(expressed in RMB per share)</i>		
Basic and diluted earnings per share	0.15	0.18

CHAPTER FOUR SUMMARY OF FINANCIAL AND OPERATING DATA

II. SUMMARY OF OPERATING DATA

	As at June 30,	
	2017	2016
Capacity ('000 m ³ per day)		
Wastewater treatment	1,594	1,544
Reclaimed water supply	44	44
Running water supply	16	6

	For the six months ended June 30,	
	2017	2016
Volume ('000 m ³ per period indicated)		
Wastewater treatment	253,536	236,253
Reclaimed water supply	3,687	3,317
Running water supply	3,166	2,375

	For the six months ended June 30,	
	2017	2016
Utilization rate		
Wastewater treatment	87.9%	86.8%
Reclaimed water supply	46.3%	41.4%
Running water supply	28.1%	26.7%

CHAPTER FIVE

MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

The industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from qualified raw water sources; treatment of municipal wastewater collected through municipal pipelines; and further treatment of wastewater for reuse. Our core business segments include municipal wastewater treatment, reclaimed water supply and running water supply.

In 2016, the "13th Five-Year Plan" of the PRC government called for the comprehensive improvement of eco-environmental quality as one of its main goals and overall philosophy. The PRC government has expanded the overall layout of the development strategy from the "four-in-one" of economic development, political development, cultural development and social development to the "five-in-one" with the inclusion of the development of ecological civilization for the first time. Centering around this new objective, overall planning and deployment have been carried out from different aspects including comprehensive environmental management, ecological security mechanism and green environmental protection industry development. On the one hand, the increasing support from the government in the form of favorable policies to environmental protection industry demonstrates that China is determined to continue tightening implementation of pollution treatment and control and enhancing improvement of the environment. On the other hand, it also further provides new opportunities and a broader platform for the long-term development of the environmental protection industry.

In December 2016, the PRC government introduced the "13th Five-Year" National Urban Wastewater Treatment and Recycling Facilities Construction Plan ("十三五"全國城鎮污水處理及再生水利用設施建設規劃) which states that during the 13th Five-Year Plan period, further coordination of the planning, reasonable layout and greater contribution are the tasks to achieve, for purposes of changing the mode of the construction of urban wastewater treatment facilities from "scaled growth" to "quality and effect enhancement". Thus, the support capability and service level of the PRC urban wastewater treatment facilities will be enhanced and upgraded overall, enabling the public to actually feel the effect of the improvement made to the quality of the water environment.

During the Reporting Period, the environmental protection industry in China continued to develop favorably with positive outlook and had the following major changes: (1) the goal of improving environmental quality places greater emphasis on the effective implementation of environmental protection projects; while production capacity was used as the standard of assessment in the past, improvement in environmental treatment now comes first, whether in terms of the government's planning or the assessment system; (2) the investment in the environmental protection industry shifts from focusing on the quantity of the outputs to the quality of the outputs and from focusing on the supply and demand of the industry to the supply of the industry; and (3) the robust development of the environmental protection industry is continuously driving the growth of segment market, and new markets such as black and odorous water treatment, sponge city, soil remediation, carbon trading have shown enormous business potential. It is expected that the environmental protection industry will enter into a new phase of digital upgrade with the introduction of various methods such as big data and smart environmental protection to change the current situation of the environmental protection industry.

1. Overview of Wastewater Treatment Industry

The municipal wastewater treatment industry in China is under rapid development, due to increases in government investments, infrastructure, funding, efficiency and enhanced discharge standards. From 2015 to 2020, capacity of China's municipal wastewater treatment is expected to increase from 168.4 million m³ per day to 218.0 million m³ per day, at a CAGR of 5.3%. The treatment capacity may reach 66.3 billion m³ by 2020. The infrastructure in Yunnan Province is generally less developed than those in the coastal regions of China. The urbanization rates of Yunnan Province and Guizhou Province are lower than those of the provinces in eastern China. Rapid development of economy and urbanization drive the development of the municipal wastewater treatment industry in Yunnan Province and Guizhou Province.

The prospect of the macro-economy in Yunnan Province poses potential threat to the demand for wastewater treatment because the overall economy in Yunnan Province directly impacts on the level of business activities and thus further impacts on the volume of wastewater discharge. Changing government policies and their level of implementation are of equal importance to the prospects of the industry, as a supportive governmental policy is a key driver of the increase in wastewater treatment business in Yunnan Province.

2. Overview of Reclaimed Water Industry

Looking forward, capacity of reclaimed water is expected to grow at a CAGR of 10.4% between 2015 and 2020. By 2020, the total production capacity of reclaimed water in China is estimated to reach 41.6 million m³ per day. Due to the strong supports from the government of Yunnan Province to the development of the reclaimed water industry, the total production capacity of reclaimed water in Yunnan Province, PRC is expected to reach 272,000 m³ per day in 2020, representing a substantial increase.

3. Overview of Municipal Water Supply Industry

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at a rate of 1.3% in the five coming years reaching 368.0 million m³ per day by 2020. In Yunnan Province, PRC, the municipal running water supply capacity grows continuously. The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and Gross Domestic Product (GDP), which in turn will increase the demand for municipal running water supply. The government highly values the development of the supply of running water in western China.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

Driven by the state policies, the water supply services industry is expected to see huge market opportunities and potential in the future. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the Chinese government policy supporting the environmental protection industry. The Board expects that the level of development, scale and growth of the industries will be further promoted and investors in capital markets will also gradually pay more attention to the environmental protection industry.

II. DEVELOPMENT STRATEGY AND PROSPECTS

The Group is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, PRC and a provider of integrated water-related services (including running water supply service) in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other areas of China. With the furtherance of the national and local governments, the Group is one of the major enterprises implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

The Group targets to become a leading integrated water and environmental protection services provider in the PRC. Thus, we intend to seize the development opportunities that will arise from the "One Belt One Road" scheme, with an aim of building a more ecological Yunnan and China, to strengthen our core business of wastewater treatment and reclaimed water supply, to expand our geographic coverage and to extend our services.

2017 is the first year that the H Shares of the Company are listed on the Hong Kong Stock Exchange. The successful listing of H Shares not only strengthened the shareholder base of the Group, but also further enhanced the Group's financing capability and increased its brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various business segments. With the support of relevant favorable environmental policies and growing market demands in the PRC and Southeast Asia, in addition to consolidating and expanding the achievements gained in its existing water business, the Group continued to expand its geographical coverage of services.

III. BUSINESS REVIEW

We principally adopt the TOO, TOT and BOT project models, with a focus on the TOO model. For the six months ended June 30, 2017, our TOO projects contributed to 71.5% of our total revenue. Our TOT projects contributed to 4.4% of our total revenue and our BOT projects contributed to 11.6% of our total revenue. We also adopt the BT project models for some of our projects.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT models, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtain new concessions from or transfer the relevant facilities back to the relevant local governments, depending on project types. As of June 30, 2017, we had a total of 34 plants (28 wastewater treatment plants and 6 running water plants) under concession agreements, of which 29 plants were in operation and 5 plants were under construction. Among such 29 plants in operation, 15 were TOO projects, 13 were TOT projects, and 1 was a BOT project.

During the Reporting Period, the utilization rate of our facilities is above the industry average and the volume of wastewater treated maintained at a high level. For the six months ended June 30, 2017, the total volume of wastewater treated was 253.5 million m³ with an average facility utilization rate of 87.9%.

Wastewater Treatment Projects

As of June 30, 2017, we had a total of 26 wastewater treatment plants in operation (including 13 in Kunming and 13 in other areas of China), with a total wastewater treatment capacity of 1.6 million m³ per day. We also had 2 wastewater treatment plants under construction in Yunnan Province, PRC and in Laos, respectively. Additionally, our management services facilities have a total designed wastewater treatment capacity of 0.5 million m³ per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while provide high quality wastewater treatment services. As of June 30, 2017, 90.8% of our designed wastewater treatment capacity reached the National Class I Category A standard.

Reclaimed Water Business

For our reclaimed water business, as of June 30, 2017, we had 6 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m³. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming.

Running Water Business

For our running water business, as of June 30, 2017, we had 3 running water plants in operation in Yunnan Province, PRC and 3 running water plants under construction (including 2 in Yunnan Province, PRC and 1 in Laos).

Our projects in Laos mark our first step expanding into the Southeast Asian market, as well as our commitment to China's national strategy of "One Belt One Road".

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended June 30, 2016, our revenue amounted to RMB424.7 million, and increased by 12.9% to RMB479.4 million for the six months ended June 30, 2017; our gross profits for the six months ended June 30, 2016 were RMB201.5 million, and increased by 4.3% to RMB210.1 million for the six months ended June 30, 2017. During the Reporting Period, the revenue from the service of wastewater treatment, reclaimed water, running water supply and management services respectively accounted for 79.9%, 10.3% and 8.0% of the total revenue.

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

	For the six months ended June 30, (Unaudited)	
	2017 RMB'000	2016 RMB'000
Revenue	479,359	424,701
Cost of sales	(269,282)	(223,231)
Gross profit	210,077	201,470
Selling expenses	(6,265)	(5,098)
Administrative expenses	(52,783)	(40,576)
Research and development expenses	(4,322)	(3,056)
Other income	44,493	39,100
Other (losses)/gains – net	(8)	2,554
Operating profit	191,192	194,394
Finance income	18,542	901
Finance expenses	(51,935)	(43,109)
Finance expenses – net	(33,393)	(42,208)
Share of results of associates	479	(178)
Profit before income tax	158,278	152,008
Income tax expense	(25,499)	(22,595)
Other comprehensive loss for the period	(516)	–
Total comprehensive income for the period	132,263	129,413

(a) Revenue

During the Reporting Period, our revenue amounted to approximately RMB479.4 million, an increase of 12.9% as compared to approximately RMB424.7 million for the same period last year, primarily because:

- 1) our revenue from wastewater treatment business increased by RMB11.2 million, primarily due to ① an increase of approximately RMB3.7 million in our revenue from water plants operated by us due to the increase in volume of water treated; ② an increase of RMB4.9 million in our wastewater treatment. This is due to the increase in revenue under TOT model, in which the revenue from Bafang Water increased by RMB2.6 million for the period after it is consolidated to the Group from May 2016 and the revenue from Hongze Water increased by RMB2.3 million after it is consolidated to the Group during the period; ③ an increase of approximately RMB2.1 million in the interest income recognized by the TOT project of Hongze Water for the period.
- 2) our revenue from running water business and reclaimed water business increased by RMB30.4 million, primarily due to ① the increase of running water BOT projects, including Malong Water, the construction projects for Shuangjiang No. 2 Running Water Plant and a running water plant in Laos which were newly increased in the period, which resulted in an increase in our construction revenue from BOT projects by approximately RMB34.5 million. ② a decrease of RMB9.5 million in our construction revenue from BOT projects for the period as compared to the previous year as a result of the completion of the running water plant in Shidian.
- 3) our revenue from other businesses increased by RMB13.1 million, primarily due to ① the increase in our revenue from management service by RMB9.4 million, which was attributable to adjustment of water price calculation mechanism for management service resulting in a substantial increase in revenue for the period. ② among other businesses, the revenue from construction of pipeline network by Yunnan Reclaimed Water Industry Co., Ltd. increased by approximately RMB1.6 million, and the revenue from material sales and technology services provided by Malong Water increased by approximately RMB0.7 million.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(b) Cost of sales

During the Reporting Period, our cost of sales amounted to approximately RMB269.3 million, an increase of 20.7% as compared to approximately RMB223.2 million for the same period last year, primarily because:

- 1) the cost of wastewater treatment increased by RMB15.4 million in line with the increase in revenue, including ① an increase of RMB10.0 million in the wastewater treatment cost of the Company; ② an increase of RMB7.7 million in the cost for the period due to BOT projects in Laos.
- 2) our water supply cost increased by approximately RMB30.7 million, primarily due to the increase in cost for the period by RMB18.6 million as a result of the construction of running water BOT projects in Shuangjiang and Laos. During the Reporting Period, the cost for construction of Malong Water increased by RMB15.9 million.
- 3) Hongze Water, Qutang Water and Libao Water were consolidated into the Group in 2017, which resulted in an increase in cost for the Reporting Period by approximately RMB2.6 million.

(c) Gross margin

During the Reporting Period, our gross margin was approximately 43.8%, a decrease of 3.6% as compared to 47.4% for the same period last year, primarily due to the increase in the costs for construction of BT and BOT projects for the Reporting Period.

(d) Selling expenses

During the Reporting Period, our selling expenses amounted to approximately RMB6.3 million, an increase of 23.5% as compared to approximately RMB5.1 million for the same period last year, primarily due to the increase in salaries expense for sales staff and the increase in selling expense of the Group is due to the inclusion of the selling expenses of Kunming He'ertai Environmental Industry & Trading Co., Ltd. (昆明和而泰環保工貿有限責任公司) into the Group's consolidated account after it became our subsidiary since May 2016.

(e) Administrative expenses

During the Reporting Period, our administrative expenses amounted to approximately RMB52.8 million, an increase of 30.0% as compared to approximately RMB40.6 million for the same period last year, primarily because:

- 1) the listing related expenses for the year increased by RMB12.0 million as compared to previous year, primarily including listing related expenses provided for based on the progress of listing.
- 2) the employee benefit expenses for the year increased by RMB1.5 million, primarily due to the increase in the salary and bonus of the staff.

(f) Research and development expenses

During the Reporting Period, our research and development expenses amounted to approximately RMB4.3 million, an increase of 38.7% as compared to approximately RMB3.1 million for the same period last year, primarily due to the larger investment in research and development by the Group.

(g) Other income

During the Reporting Period, our other income amounted to approximately RMB44.5 million, an increase of 13.8% as compared to approximately RMB39.1 million for the same period last year, primarily due to the increase in government grants by RMB5.8 million, among which, the government grants relating to property, plant and equipment increased by RMB3.0 million, the government grants relating to research and development activities increased by RMB1.8 million and refunded tax from the government increased by RMB0.9 million.

(h) Other (losses)/gains – net

During the Reporting Period, our other losses amounted to approximately RMB0 million, a decrease of 100% as compared to approximately RMB2.6 million gains, primarily due to the gains on disposal of land use rights obtained during the same period of last year.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(i) Operating profit

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to approximately RMB191.2 million, a decrease of 1.6% as compared to approximately RMB194.4 million for the same period last year. Our operating margin during the Reporting Period was 39.9%.

(j) Finance income

During the Reporting Period, our finance income amounted to approximately RMB18.5 million, an increase of 1,955.6% as compared to approximately RMB0.9 million for the same period last year, primarily due to the increase in provision for interest income on the long-term prepayment by approximately RMB14.0 million. At the same time, Hongze Water, acquired in 2017, obtained an interest income of RMB3.6 million from tailwater projects.

(k) Finance expenses

During the Reporting Period, our finance expenses amounted to approximately RMB51.9 million, an increase of 20.4% as compared to approximately RMB43.1 million for the same period last year, primarily due to that the Company opened an account in Hong Kong dollars in 2017 and raised proceeds of HK\$1,279.1 million from the stock market in Hong Kong. As of June 30, 2017, cash and cash equivalents denominated in Hong Kong dollars amounted to RMB348 million. Due to the fluctuation of exchange rate between April to June, 2017, a temporary exchange loss of RMB17.9 million was recorded. The Company was of the view that portion of cash and cash equivalents denominated in Hong Kong dollars would be applied to potential acquisition in the future. The weighted average effective interest rate of our borrowings for the Reporting Period was 4.42%.

(l) Profit before income tax

During the Reporting Period, our profit before income tax amounted to approximately RMB158.3 million, an increase of 4.1% as compared to approximately RMB152.0 million for the same period last year, primarily due to the increase in gross profit by RMB8.6 million, the increase in finance income by RMB17.6 million, and the increase in listing expenses by RMB12.2 million.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(m) *Income tax*

During the Reporting Period, our net income tax expense amounted to approximately RMB25.5 million, an increase of 12.8% as compared to RMB22.6 million for the same period last year. The effective tax rate was 16.1%, increasing by 1.2% as compared with the same period last year, primarily because the income tax rate for the enterprises which were newly included into consolidation was 25%.

(n) *Total comprehensive income*

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to approximately RMB132.3 million, increased by 2.2% as compared to RMB129.4 million for the same period last year.

2. Liquidity and Capital Resources

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

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

	For the six months ended June 30, (Unaudited)	
	2017 RMB'000	2016 RMB'000
Net cash used in operating activities	(237,523)	(47,997)
Net cash used in investing activities	(41,782)	(76,833)
Net cash generated from/(used in) financing activities	1,247,245	(248,377)
Net increase/(decrease) in cash and cash equivalents	967,940	(373,207)
Foreign exchange losses	(18,427)	–
Cash and cash equivalents at beginning of the period	446,830	1,087,533
Cash and cash equivalents at end of the period	1,396,343	714,326

(a) *Net cash used in operating activities*

Our net cash generated from operating activities primarily consists of cash received from our clients for services provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, our net cash used in operating activities was RMB237.5 million, increased by RMB189.5 million as compared to RMB48.0 million for the same period last year, which was primarily due to the increase in construction expenditure of BOT projects for the period. We received the revenue of management service from Kunming Dianchi Investment and refunded tax from government of approximately RMB79.5 million for the same period last year, while we did not receive such amounts in the Reporting Period, which are expected to be received in the second half of this year. The reasons for the relatively large difference between net cash used in operating activities in the first half of the year and that for the same period last year mainly included: (i) an increase in trade receivables for revenue from government procurement for wastewater treatment; (ii) an increase in refunded VAT receivables under the policy for refunding upon collection. Moreover, the relatively large balance of cash of the Company was primarily due to: (i) the proceeds from listing of the Company; (ii) as the Company accelerated the proposed investment projects after the blackout period of the listing, to satisfy the capital needs and to guarantee the funding of the Company's domestic projects and potential overseas projects, the Company made the corresponding capital reserves. We expected that, with the recovery of government grant for wastewater treatment fee, our cashflow from operating activities would be improved substantially.

(b) Net cash used in investing activities

Our net cash used in investing activities has been primarily used to purchase property, plant and equipment and equity interests in subsidiaries and associates.

Our net cash used in investing activities reduced from RMB76.8 million for the six months ended June 30, 2016 to RMB41.8 million for the six months ended June 30, 2017, primarily because the purchase of property, plant and equipment reduced by RMB15.3 million and government grants received relating to purchase of property, plant and equipment increased by RMB14.2 million.

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

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

Our net cash used in financing activities was RMB248.4 million for the six months ended June 30, 2016 as compared to net cash generated from financing activities of RMB1,247.2 million for the six months ended June 30, 2017, primarily comprising the proceeds from issuance of new shares of RMB1,072.3 million and the proceeds from borrowings of RMB300.0 million.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

3. Working Capital

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

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Current assets		
Receivables under service concession arrangements	13,193	9,679
Inventories	9,808	10,336
Amounts due from customers for construction contracts	12,247	5,716
Trade and other receivables	604,597	306,895
Cash and cash equivalents	1,396,343	446,830
Total current assets	2,036,188	779,456
Current liabilities		
Trade and other payables	(493,993)	(422,339)
Current income tax liabilities	(29,986)	(44,568)
Borrowings	(1,019,934)	(778,737)
Total current liabilities	(1,543,913)	(1,245,644)
Net current assets/(liabilities)	492,275	(466,188)

Our net current assets/(liabilities) increased from net current liabilities of RMB466.2 million as of December 31, 2016 to net current assets of RMB492.3 million as of June 30, 2017, primarily due to the increase in net cash by RMB997.5 million as the proceeds raised through our H Shares listing.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(a) Receivables under service concession arrangements

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation services and finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT and TOT agreements, the amount of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB13.2 million as at June 30, 2017, representing a year-on-year increase of 36.3%.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB463.3 million as at June 30, 2017, representing a year-on-year increase of 35.5%.

The aggregate of current and non-current portions for the Reporting Period increased by RMB124.9 million as compared to the end of 2016, primarily due to the increase of the original value of the long term receivables during the Reporting Period resulting from the newly established Shuangjiang No. 2 Running Water Plant, a wastewater treatment plant and a running water plant in Laos and acquisition of Hongze Water.

(b) Inventories

Our total inventory balance decreased slightly from RMB10.3 million as of December 31, 2016 to RMB9.8 million as of June 30, 2017. The amount remained substantially the same.

For the six months ended June 30, 2017, our inventory turnover days were 6.7 days, increased slightly by 0.4 day as compared to the year ended December 31, 2016. The calculation for inventory turnover days was based on the average balance of inventory dividing by the current total cost and then multiplied by 180 days. The inventory turnover days remained substantially the same.

(c) Amounts due from customers for construction contracts

As of June 30, 2017, our amounts due from customers for construction contracts were approximately RMB90.5 million, increased by RMB49.2 million as compared to RMB41.3 million as of December 31, 2016, primarily due to the additional right to collect receivables of RMB54.7 million in respect of the tailwater project under the BT contracts of Hongze Water for the period.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(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 government; and (iii) prepayments. Our trade receivables are amounts due from customers for 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 tariff and listing expenses related to the Global Offering.

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

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Trade receivables:		
– Third parties	3,128	941
– Related parties	84,865	39,678
– Local government	356,009	85,381
Trade receivables – net	444,002	126,000
Other receivables:		
– Third parties	13,613	54,287
– Related parties	54,535	39,472
– Local government	81,393	51,590
Other receivables – net	149,541	145,349
Prepayments:		
– Listing expenses	–	28,946
– Others	11,054	6,600
Prepayments – net	11,054	35,546
Trade and other receivables – net	604,597	306,895

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2017, our net trade and other receivables was approximately RMB604.6 million, increased by RMB297.7 million or 97.0% as compared to approximately RMB306.9 million as of December 31, 2016, primarily due to:

- (i) net trade receivables increased by RMB318.0 million, of which RMB270.6 million was the increase in balance of receivables from government wastewater treatment fee, mainly due to the fact that the government receivables would mainly be collected in the second half of the year, leading to more balance of trade receivables in the first half of the year compared to the end of the year.
- (ii) net other receivables increased by RMB4.2 million, of which RMB29.8 million was the increase of tax refund from the local taxation bureaus for the period. Other receivables from related parties increased by RMB15.1 million for the period, which was mainly because the interest on borrowing due from the related party increased by RMB14.9 million. Other receivables from third parties were offset by consolidating the investment amounting to RMB47.7 million in Hongze Water, Libao Water and Qutang Water, causing a decrease of RMB47.7 million. Other receivables from other clients increased by RMB6.0 million.
- (iii) net prepayments decreased by RMB24.5 million, of which RMB28.9 million was the decrease in prepayments relating to listing expenses for the period after capitalization while RMB4.5 million was the increase in other prepayments.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

The aging analysis of trade receivables of our Group is shown as follows:

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
– Within one year	442,182	125,542
– Over one year and within two years	1,820	458
	444,002	126,000

Based on the past experience, the Directors believe that no impairment allowance of trade receivables is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these balances are considered fully recoverable.

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

	As at June 30, 2017 Days	As at December 31, 2016 Days
Trade receivables turnover days ⁽¹⁾	107	45
Trade and other receivables turnover days ⁽²⁾	163	99

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 June 30, 2017 and the year ended December 31, 2016.
- (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 June 30, 2017 and the year ended December 31, 2016.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

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, dividend payables, interest payables, and accrued taxes other than income tax.

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

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Trade payables	3,725	2,093
Other payables	51,657	53,176
Consideration unpaid for acquisition of business	–	18,447
Staff salaries and welfare payables	17,800	28,661
Advances from customers	8,513	12,177
Payables on acquisition of property, plant and equipment	150,589	151,957
Payables on acquisition of land use rights from related parties	58,194	58,194
Dividend payables	102,911	–
Interest payables	17,318	1,310
Accrued taxes other than income tax	83,286	96,324
	493,993	422,339

As of June 30, 2017, our trade and other payables amounted to approximately RMB494.0 million, representing an increase of RMB71.7 million or 17.0% as compared to approximately RMB422.3 million as of December 31, 2016. The increase was primarily due to: (i) an increase of RMB102.9 million for dividend payables for the period, which was primarily due to the total cash dividends of RMB102.9 million distributed from retained earnings as the cash dividend for the year ended December 31, 2016 to be distributed to the shareholders of the Company as approved by the shareholders at the 2016 annual general meeting held on June 19, 2017; (ii) an increase of RMB16.0 million for interest payables for the period compared to last year, which was primarily due to the interest payable on bonds being settled at the end of each year, with an amount of approximately RMB30.0 million for a full year, and a balance of approximately RMB15.0 million in the middle of year; (iii) a decrease of RMB18.4 million due to the settlement of the remaining balance of consideration of RMB18.4 million

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

during the period for acquisition of the facilities of Maling Water; (iv) a decrease of RMB1.5 million for the balance of other payables for the period, which was primarily due to the fact that the listing related expenses have been successively settled as to approximately RMB2.8 million; (v) a decrease of approximately RMB10.9 million for the staff salaries payable for the Reporting Period, which was primarily due to provision of year-end bonus for half year in the middle of year while the balance at the end of year included the bonus provided for the whole year; (vi) a decrease of RMB13.0 million of tax payables for the Reporting Period. The tax payables has been paid during the Reporting Period.

The aging analysis of trade payables of our Group is as follows:

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Within one year	3,725	2,093

As at June 30, 2017 and December 31, 2016, all trade and other payables of our Group were non-interest bearing, and their fair values, except for the advances from customers which are not financial liabilities, approximate to their carrying amounts due to their short maturities.

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

	As at June 30, 2017 Days	As at December 31, 2016 Days
Trade and other payables turnover days ⁽¹⁾	310	363
Trade payables turnover days ⁽²⁾	19	19

Notes:

- (1) Calculated as the average trade payables 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 payables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.
- (2) Calculated as the average trade and other payables 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 payables is used for the six months ended June 30, 2017 and the year ended December 31, 2016.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, our trade payables turnover days remained stable as compared with the same period last year.

Our directors confirm that up to June 30, 2017, there was no material default in payment of trade payables.

5. Indebtedness

(a) Borrowings

All of our borrowings are denominated in RMB and some are secured by our property, plant and equipment.

The following table shows our borrowings as of the dates indicated:

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Non-current:		
Unsecured long-term borrowings	30,000	–
Secured long-term borrowings	3,416	48,356
Corporate bonds	694,029	693,639
Total non-current borrowings	727,445	741,995
Current:		
Unsecured short-term borrowings	920,000	660,000
Secured short-term borrowings	99,934	118,737
Total current borrowings	1,019,934	778,737
Total borrowings	1,747,379	1,520,732

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at June 30, 2017	As at December 31, 2016
Average effective interest rate	4.42%	4.78%

Our total borrowings amounted to approximately RMB1,747.4 million as of June 30, 2017, representing an increase of RMB226.7 million or 14.9% as compared to approximately RMB1,520.7 million as of December 31, 2016. Among our indebtedness, borrowings amounting to approximately RMB103.4 million as of June 30, 2017, were secured by our property, plant and equipment, representing a decrease of RMB63.7 million or 38.1% as compared to approximately RMB167.1 million as of December 31, 2016. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on December 25, 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company can adjust the interest rate for the remaining 2-year period, and the investors have an option to request early redemption of the outstanding corporate bond if they do not agree to the adjusted interest rate.

As of June 30, 2017, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us or had demanded any early repayment.

As of June 30, 2017, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As of June 30, 2017, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
On demand or within 1 year	1,019,934	778,737
Between 1 and 2 years	33,416	48,356
More than 5 years	694,029	693,639
	1,747,379	1,520,732

As of June 30, 2017, our net gearing ratio (calculated as net debt divided by total capital at the end of the period, of which net debt is calculated as total borrowings less cash and cash equivalents at the end of the period; total capital is calculated as total equity plus net debt) was 9.1%, representing a decrease of 21.0% as compared to 30.1% as of December 31, 2016, primarily due to the cash obtained through listing.

Except as disclosed above, as of June 30, 2017, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

(b) Commitments

Our capital commitments contracted for at each balance sheet date, but not yet incurred are as follows:

	As at June 30, 2017 RMB'000	As at December 31, 2016 RMB'000
Property, plant and equipment	391,160	458,123
Land use rights and intangible assets	14,908	16,978
	406,068	475,101

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

(c) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB43.1 million for the six months ended June 30, 2017, representing a decrease of 92.4% as compared to RMB568.1 million for the six months ended June 30, 2016. We expect to fund our contractual commitments and capital expenditures principally through cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the global offering of H Shares.

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

	As at June 30,	
	2017 RMB'000	2016 RMB'000
Wastewater treatment	41,084	566,385
Water supply	704	1,686
Others	1,278	34
	43,066	568,105

Based on our current business plan, we expect to incur capital expenditure amounting to RMB201.1 million for the year ending December 31, 2017. 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.

CHAPTER FIVE MANAGEMENT DISCUSSION AND ANALYSIS

6. Employees and Remuneration Policies

As at June 30, 2017, we had 614 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of June 30, 2017:

Function	Number
Management and Administration	81
Finance	16
R&D	40
Quality Monitoring	120
Marketing	15
Operations	326
Construction and Maintenance	16
Total	614

We recruit our employees on the open market. Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended June 30, 2017, our employee benefits and labor expenses amounted to approximately RMB48.4 million, representing an increase of 11.5% as compared to approximately RMB43.4 million for the six months ended June 30, 2016, primarily due to the Group's business expansion and the increases in wages and bonus.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we have in-house training programs to train our staff. New employees at our production facility receive trainings pertinent to their job duties. We also own the Kunming Dianchi Water Treatment Occupation Training School, which provides continuing training for our employees.

Our labor union communicates closely with the management regarding labor matters on behalf of our employees' interests. During the Reporting Period, we had not experienced any interruptions to our operations caused by major labor disputes and there were no complaints or claims from our employees which had a material adverse effect on our business. Our Directors believe that we maintain a good relationship with our employees. During the Reporting Period, the Group had no major labor disputes which might produce significant impact on the normal business operations of the Group.

7. Contingent Liabilities

As of June 30, 2017, the Group did not have any material contingent liability.

8. Major Investment and Acquisition

We entered into a framework agreement on June 1, 2016 to acquire 100.0% equity interests in three wastewater treatment companies in Jiangsu Province, i.e. Qutang Water, Libao Water and Hongze Water, which had an aggregate designed wastewater treatment capacity of 50,000 m³ per day. On October 30, 2016, we entered into three share transfer agreements thereby to acquire such three foregoing wastewater treatment companies for a total consideration of RMB80.0 million. These transactions were completed in January 2017 and such three companies have been consolidated into the Group thereafter. These acquisitions and development would not produce any significant financial impact on the Group individually or in aggregate.

Save for the abovementioned acquisitions, during the Reporting Period, the Group does not have any major investment nor any plan for acquiring capital assets.

9. Material Litigation

As of June 30, 2017, the Group is not involved in any material or potential litigation.

CHAPTER SIX CORPORATE GOVERNANCE AND OTHER INFORMATION

I. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the shareholders and protecting their interests. The Company has adopted the code provisions of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the Corporate Governance Code and has set up a series of corporate governance policies. The Directors believe that commencing from the Listing Date, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code except for provision A.2.1.

Ms. Guo Yumei is the Chairperson and President of the Company. In accordance with provision A.2.1 of the Corporate Governance Code, the roles of chairperson and chief executive officer should be separated and should not be held by the same person. Being aware of the said deviation from provision A.2.1 of the Corporate Governance Code, but in view of the development of the Group and Ms. Guo's extensive experience in the industry and long service history with the Group, the Board believes that Ms. Guo concurrently acting as the Chairperson and President can facilitate the execution of the Group's business strategies and enhance the operating efficiency. In addition, the Board comprises 3 independent non-executive Directors and 2 non-executive Directors, enabling the interest of the Company's shareholders to be represented sufficiently and fairly under the supervision by the Board.

The Board will examine and review, from time to time, the Company's corporate governance practices and operation in order to comply with the relevant provisions under the Listing Rules and to protect the Company's shareholders' interests.

II. THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes of Directors, Supervisors and Senior Management

During the Reporting Period, there were no changes of Directors, supervisors and senior management of the Company; and the Company is also not aware of any change in particulars of Directors and supervisors that needs to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

2. The Interest and Short Positions of the Directors, Supervisors and Senior Management in the Shares, Underlying Shares and Debentures

As of June 30, 2017, none of the Directors, supervisors and senior management of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

As of June 30, 2017, none of the Directors, supervisors or their respective spouses or children below 18 was granted any right to subscribe for the shares of the Company or any of its associated corporations or to have exercised any such rights.

3. Compliance with the Model Code for Securities Dealings by the Directors, Supervisors and Relevant Employees

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 of 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 period from the Listing Date to June 30, 2017.

CHAPTER SIX CORPORATE GOVERNANCE AND OTHER INFORMATION

III. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As of June 30, 2017 and to the best knowledge of the Company's Directors, the following persons (except for the Company's Directors, the chief executives or supervisors) had some interest or short positions in the Shares or underlying Shares of the Company which will have to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Class of Shares	Number of Shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of Shares of the Company (%)
Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司)	Beneficial owner	Domestic Shares	660,318,635 (long position)	64.16%	95.83%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of controlled corporation	H Shares	59,000,000 (long position)	5.73%	17.35%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial owner	H Shares	39,790,000 (long position)	3.87%	11.70%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial owner	H Shares	64,770,000 (long position)	6.29%	19.05%
Modern Orient Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Investments Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Holdings Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Group Company Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%

CHAPTER SIX CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Shareholder	Capacity/Nature of interest	Class of Shares	Number of Shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of Shares of the Company (%)
Beijing Enterprises Group (BVI) Company Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Environmental Construction Limited	Interest of controlled corporation	H Shares	45,705,000 (long position)	4.44%	13.47%

Notes:

- (1) Pursuant to Section 336 of the SFO, if certain conditions are met, the shareholders of the Company are required to submit a disclosure of interest notice. In the event of changes in the shareholding of the shareholders in the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the shareholders in the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.
- (2) Save for the disclosed above, as of June 30, 2017, the Company is not aware of any other persons (other than the Directors, supervisors and chief executives of the Company) who have interest or short positions in the Shares or Underlying Shares of the Company which are required to be recorded in the register under Section 336 of the SFO.

IV. 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 June 30, 2017.

V. AUDIT COMMITTEE

The Audit Committee of the Company is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company. The Audit Committee has reviewed the unaudited interim results for the six months ended June 30, 2017 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VI. 2016 DIVIDEND AND 2017 INTERIM DIVIDEND

As approved by the annual general meeting held on June 19, 2017, the Company determined to pay a cash dividend for the year ended December 31, 2016 of RMB0.1 (tax inclusive) for every ordinary share amounting to RMB102,911,000 out of retained earnings of the Company. The declaration of these dividends had not been reflected as dividends payable in the consolidated financial statements for the year ended December 31, 2016 but have been reflected as dividends distribution for the six months ended June 30, 2017. The 2016 dividends are expected to be paid to the shareholders by the August 31, 2017.

The Board did not recommend any payment of interim dividend for the six months ended June 30, 2017 (six months ended June 30, 2016: nil).

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	8	435,377	433,484
Long-term prepayments	8	450,000	450,000
Property, plant and equipment	8	2,337,662	2,369,089
Receivables under service concession arrangements	9	463,346	341,944
Amounts due from customers for construction contracts	13	78,296	35,573
Intangible assets	10	83,504	75,197
Investments in associates	11	15,580	15,101
Prepayments for acquisition of subsidiaries	7	—	79,950
Deferred income tax assets	12	24,845	23,697
		3,888,610	3,824,035
Current assets			
Receivables under service concession arrangements	9	13,193	9,679
Inventories		9,808	10,336
Amounts due from customers for construction contracts	13	12,247	5,716
Trade and other receivables	14	604,597	306,895
Cash and cash equivalents	15	1,396,343	446,830
		2,036,188	779,456
Total assets		5,924,798	4,603,491
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	16	1,029,111	720,000
Other reserves	17	1,384,346	696,513
Retained earnings		1,107,221	1,077,795
		3,520,678	2,494,308
Non-controlling interests		5,544	5,102
Total equity		3,526,222	2,499,410

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	19	113,379	107,121
Borrowings	18	727,445	741,995
Deferred income tax liabilities	12	13,839	9,321
		854,663	858,437
Current liabilities			
Trade and other payables	20	493,993	422,339
Current income tax liabilities		29,986	44,568
Borrowings	18	1,019,934	778,737
		1,543,913	1,245,644
Total liabilities		2,398,576	2,104,081
Total equity and liabilities		5,924,798	4,603,491
Net current assets/(liabilities)		492,275	(466,188)
Total assets less current liabilities		4,380,885	3,357,847

The notes on pages 44 to 88 form an integral part of this condensed consolidated interim financial information.

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended June 30,	
<i>Note</i>	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	6	479,359	424,701
Cost of sales	23	(269,282)	(223,231)
Gross profit		210,077	201,470
Selling expenses	23	(6,265)	(5,098)
Administrative expenses	23	(52,783)	(40,576)
Research and development expenses	23	(4,322)	(3,056)
Other income	21	44,493	39,100
Other (losses)/gains – net	22	(8)	2,554
Operating profit		191,192	194,394
Finance income	24	18,542	901
Finance expenses	24	(51,935)	(43,109)
Finance expenses – net	24	(33,393)	(42,208)
Share of results of associates		479	(178)
Profit before income tax		158,278	152,008
Income tax expense	25	(25,499)	(22,595)
Profit for the period		132,779	129,413
Profit attributable to:			
– The equity holders of the Company		132,337	129,263
– Non-controlling interests		442	150
		132,779	129,413

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended June 30,	
Note	2017 RMB'000	2016 RMB'000	
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation differences	(516)	–	
Other comprehensive loss for the period, net of tax	(516)	–	
Total comprehensive income for period	132,263	129,413	
Attributable to:			
– The equity holders of the Company	131,821	129,263	
– Non-controlling interests	442	150	
	132,263	129,413	
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted earnings per share	26 0.15	0.18	
Dividends	27 102,911	–	

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Unaudited Capital and reserves attributable to equity holders of the Company			Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
As at January 1, 2017	720,000	696,513	1,077,795	2,494,308	5,102	2,499,410
Comprehensive income:						
Profit for the period	–	–	132,337	132,337	442	132,779
Currency translation difference	–	(516)	–	(516)	–	(516)
Transactions with owners:						
Proceeds from issuance of H shares	16	309,111	688,349	–	997,460	–
Dividend declared	27	–	–	(102,911)	(102,911)	–
As at June 30, 2017	1,029,111	1,384,346	1,107,221	3,520,678	5,544	3,526,222
As at January 1, 2016	720,000	669,061	830,254	2,219,315	–	2,219,315
Comprehensive income:						
Profit for the period	–	–	129,263	129,263	150	129,413
Transactions with owners:						
Non-controlling interests arising on business combination	–	–	–	–	4,417	4,417
As at June 30, 2016	720,000	669,061	959,517	2,348,578	4,567	2,353,145

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Unaudited	
		Six months ended June 30,	
		2017	2016
		RMB'000	RMB'000
Cash flows from operating activities			
Cash used in operations	28	(185,799)	(13,448)
Interest paid		(12,974)	(18,026)
Income tax paid		(38,750)	(16,523)
Net cash used in operating activities		(237,523)	(47,997)
Cash flows from investing activities			
Acquisition of business, net of cash acquired	7(iv)	(15,817)	(19,720)
Purchase of property, plant and equipment		(41,998)	(57,275)
Purchase of intangible assets		(2,436)	(475)
Proceeds from disposal of property, plant and equipment		–	96
Funds granted to related parties	30(b)(ii)	(31,366)	(28,562)
Funds repayments received from related parties	30(b)(iii)	31,366	27,802
Interest received		3,849	901
Government grants received relating to purchase of property, plant and equipment		14,620	400
Net cash used in investing activities		(41,782)	(76,833)
Cash flows from financing activities			
Payments for listing expenses		(46,718)	–
Gross proceeds from issuances of H shares	16	1,072,291	–
Proceeds from borrowings		450,000	150,000
Repayments of borrowings		(228,328)	(398,377)
Net cash generated from/(used in) financing activities		1,247,245	(248,377)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		446,830	1,087,533
Exchange losses		(18,427)	–
Cash and cash equivalents at end of the period		1,396,343	714,326

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

1 GENERAL INFORMATION

Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) was incorporated in Yunnan Province of the PRC on December 23, 2010 as a joint stock company with limited liabilities under the Company Law of the PRC. The registered office of the Company is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**HKEX**” or “**Hong Kong Stock Exchange**”) on April 6, 2017.

The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

This condensed consolidated interim financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

This condensed consolidated interim financial information set out on page 38 to 88 were approved for issue by the Board of Directors on August 18, 2017.

This condensed consolidated interim financial information has not been audited.

Significant events and transactions

The operational highlights of the period were the listing of the Company’s H Shares on the Main Board of HKEX and acquisition of companies engaged in wastewater treatment business. Further details are given in Note 16 and Note 7 respectively.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2017 has been prepared in accordance with IAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016 as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ended December 31, 2017.

- (a) Amendments to IFRSs effective for the financial year ended December 31, 2017 do not have a material impact on the Group.
- (b) Impact of standards issued but not yet applied by the Group.

Up to the date of this report, the International Accounting Standards Board (“IASB”) has issued the following new standards, amendments to standards and interpretations which are relevant to the Group’s operations but are not yet effective for the annual accounting periods beginning after January 1, 2017 and which have not been early adopted by the Group:

		Effective for the annual periods beginning on or after
IFRS 9 “Financial Instruments”	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied.	January 1, 2018

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

3 ACCOUNTING POLICIES (Continued)

		Effective for the annual periods beginning on or after
IFRS16 “Leases”	IFRS 16, ‘Leases’ addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases’, and related interpretations.	January 1, 2019

The Group does not plan to early adopt any of these standards. For these new standards not yet effective, the Group has assessed the impact and does not expect any significant impact on the Group’s operating results or financial position.

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 December 31, 2016 with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items. (Note 25).

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended December 31, 2016 of the Group.

There have been no changes in the risk management policies since year end.

5.2 Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("HKD"). Foreign exchange risk arises from cash and cash equivalents denominated in HKD. The Group does not hedge against any fluctuation in foreign currency.

At June 30, 2017, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, profit for the six months then ended would have been approximately RMB2,958,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash raised through the listing of the Company's H shares.

5.3 Credit risk

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

For trade and other receivables and receivables under service concession arrangements, the customers are primarily local governments and PRC state-owned entities. As at June 30, 2017, the ageing analysis of trade receivables is set out in Note 14(b). Although the revenue is highly concentrated in the two single customers (Note 6(d)), in the opinion of the directors of the Company, the collectability of receivables were not considered as high risk because the receivables were due from a local government and there is no material long-aged receivables as at June 30, 2017. Accordingly, the time value of the long-aged receivables is not significant. As such, no provision was made for receivables during the six months ended June 30, 2017.

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.4 Liquidity risk

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

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at June 30, 2017				
(Unaudited)				
Borrowings	1,019,934	33,376	700,000	1,753,310
Interest payments on borrowings	48,447	31,519	91,350	171,316
Financial liabilities included in trade and other payables	367,076	–	–	367,076
	1,435,457	64,895	791,350	2,291,702
	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at December 31, 2016				
(Audited)				
Borrowings	786,656	48,323	700,000	1,534,979
Interest payments on borrowings	48,331	30,450	91,350	170,131
Financial liabilities included in trade and other payables	283,867	–	–	283,867
	1,118,854	78,773	791,350	1,988,977

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.5 Fair value estimation

(a) The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been 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 Group did not have any financial assets or liabilities that are measured at fair value during the six months ended June 30, 2017 and 2016.

(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 net carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- Term deposits with an initial term over three months;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and
- Borrowings.

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

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION

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

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

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

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

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

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION *(Continued)*

(a) Revenue

The revenue of the Group for the periods ended June 30, 2017 and 2016 is set out as follows:

	Six months ended June 30,	
	2017 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i> (unaudited)
Wastewater treatment	383,203	371,964
Operating services – under TOO model	337,047	333,391
Operating services – under TOT/BOT model	17,360	11,370
Construction services – under BT model	–	3,761
Construction services – under BOT model	19,180	16,727
Finance income	9,616	6,715
Reclaimed water supply and running water supply	49,455	19,101
Reclaimed water supply services – under TOO model	5,617	4,204
Running water supply services – under TOT/BOT model	3,629	2,735
Construction services – under BT model	3,062	–
Construction services – under BOT model	36,216	11,201
Finance income	931	961
Others	46,701	33,636
Management services	38,457	29,064
Transportation services	1,566	1,174
Others	6,678	3,398
	479,359	424,701

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION (Continued)

(b) Segment information

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

Business segment	For the six months ended June 30, 2017 (Unaudited)			
	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	383,203	49,455	46,701	479,359
Segment gross profit	184,830	2,448	22,799	210,077
Segment profit/(loss)	169,668	(276)	21,800	191,192
Finance income				18,542
Finance expenses				(51,935)
Share of results of associates				479
Profit before income tax				158,278
Other information				
Depreciation of property, plant and equipment	77,439	4,434	538	82,411
Amortisation of land use rights	4,914	—	—	4,914
Amortisation of intangible assets	2,286	—	—	2,286
Capital expenditure	41,084	704	1,278	43,066

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As of June 30, 2017 (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>
Segment assets	5,499,983	366,381	18,009	5,884,373
Unallocated:				
Deferred income tax assets				24,845
Investments in associates				15,580
Total assets				5,924,798
Segment liabilities	2,340,311	12,223	2,217	2,354,751
Unallocated:				
Deferred income tax liabilities				13,839
Current income tax liabilities				29,986
Total liabilities				2,398,576

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

The segment information provided to senior executive management for the reportable segments for the six months ended June 30, 2016 is as follows:

Business segment	For the six months ended June 30, 2016 (Unaudited)			
	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	371,964	19,101	33,636	424,701
Segment gross profit	189,026	2,775	9,669	201,470
Segment profit	184,129	1,001	9,264	194,394
Finance income				901
Finance expenses				(43,109)
Share of results of associates				(178)
Profit before income tax				152,008
Other information				
Depreciation of property, plant and equipment	76,388	2,178	243	78,809
Amortisation of land use rights	4,266	—	—	4,266
Amortisation of intangible assets	1,801	—	—	1,801
Capital expenditure	566,385	1,686	34	568,105

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

As of December 31, 2016 (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	4,220,160	331,504	13,029	4,564,693
Unallocated:				
Deferred income tax assets				23,697
Investments in associates				15,101
Total assets				4,603,491
Segment liabilities	2,036,766	9,494	3,932	2,050,192
Unallocated:				
Deferred income tax liabilities				9,321
Current income tax liabilities				44,568
Total liabilities				2,104,081

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

6 SEGMENT 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:

	Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Customer A	234,875	229,451
Customer B	95,261	98,977
	330,136	328,428

The customer portfolio of the Group is concentrated, which is consistent with the industry practice. If customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

7 BUSINESS COMBINATIONS

- (i) On January 1, 2017, the Group acquired 100% of the equity interests in Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, “**Qutang Water**”) at a consideration of RMB5,300,000. After the acquisition, Qutang Water became a directly owned subsidiary of the Group.

Qutang Water’s principal activity is wastewater treatment, and it was acquired as part of the Group’s expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at January 1, 2017 <i>RMB’000</i>
Consideration:	
Cash consideration	5,300
Amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	766
Land use rights	1,673
Intangible assets	3,812
Property, plant and equipment	5,252
Trade and other receivables	539
Trade and other payables	(5,789)
Deferred tax liabilities	(953)
Total identifiable net assets	5,300

An intangible asset of concession rights of RMB3,812,000 was recognised as at the acquisition date.

Of the revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017, Qutang Water accounted for approximately RMB750,000, with a profit of approximately RMB182,000.

CHAPTER SEVEN INTERIM FINANCIAL INFORMATION

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

7 BUSINESS COMBINATIONS (Continued)

- (ii) On January 1, 2017, the Group acquired 100% of the equity interests in Haian Libao Water Treatment Co., Ltd. (海安李堡污水处理有限公司, “**Libao Water**”) at a consideration of RMB6,750,000. After the acquisition, Libao Water became a directly owned subsidiary of the Group.

Libao Water’s principal activity is wastewater treatment, and it was acquired as part of the Group’s expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at January 1, 2017
	RMB'000
Consideration:	
Cash consideration	6,750
Amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	841
Land use rights	1,579
Intangible assets	4,345
Property, plant and equipment	4,939
Trade and other receivables	623
Trade and other payables	(4,491)
Deferred tax liabilities	(1,086)
Total identifiable net assets	6,750

An intangible asset of concession rights of RMB4,345,000 was recognised as at the acquisition date.

The revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017 contributed by Libao Water was approximately RMB743,000. Libao Water also contributed profit of approximately RMB122,000 over the same period.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

7 BUSINESS COMBINATIONS *(Continued)*

- (iii) On January 1, 2017, the Group acquired 100% of the equity interests in Hongze Tianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, “**Hongze Water**”) at a consideration of RMB67,900,000. After the acquisition, Hongze Water became a directly owned subsidiary of the Group.

Hongze Water’s principal activity is water treatment, and it was acquired as part of the Group’s expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at January 1, 2017 RMB’000
Consideration:	
Cash consideration	67,900
Amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	1,023
Receivables under service concession arrangements	67,722
Amount due from customers for construction contracts <i>(Note 13)</i>	53,428
Land use rights	3,555
Property, plant and equipment	163
Trade and other receivables	5,171
Inventories	11
Trade and other payables	(63,173)
Total identifiable net assets	67,900

The revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to June 30, 2017 contributed by Hongze Water was approximately RMB4,413,000. Hongze Water also contributed profit of approximately RMB4,898,000 over the same period.

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For the six months ended June 30, 2017

7 BUSINESS COMBINATIONS *(Continued)*

- (iv) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the six months ended June 30, 2017:

	As at June 30, 2017
	<i>RMB'000</i>
Total cash consideration	79,950
Less: Cash and cash equivalents in the subsidiaries acquired	(2,630)
Change in consideration payable in respect of acquisition of business	18,447
Change in prepayments for acquisition of subsidiaries	(79,950)
Cash outflows from the acquisitions	15,817

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8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT AND LONG-TERM PREPAYMENTS

	Land use rights <i>RMB'000</i>	Property, plant and equipment <i>RMB'000</i>	Long-term prepayments <i>RMB'000</i>
(Unaudited)			
Six months ended June 30, 2017			
Opening net book amount as at January 1, 2017	433,484	2,369,089	450,000
Additions	–	40,630	–
Acquisition of subsidiaries (<i>Note 7</i>)	6,807	10,354	–
Amortisation and depreciation (<i>Note 23</i>)	(4,914)	(82,411)	–
Closing net book amount as at June 30, 2017	435,377	2,337,662	450,000

(Unaudited)			
Six months ended June 30, 2016			
Opening net book amount as at January 1, 2016	347,560	1,961,017	863,950
Additions	98,984	54,696	–
Transfer	–	413,950	(413,950)
Acquisition of subsidiaries	–	8,824	–
Disposals	(4,414)	(7)	–
Amortisation and depreciation (<i>Note 23</i>)	(4,266)	(78,809)	–
Closing net book amount as at June 30, 2016	437,864	2,359,671	450,000

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

	Unaudited June 30, 2017 <i>RMB'000</i>	Audited December 31, 2016 <i>RMB'000</i>
Buildings and facilities	286,502	298,705
Machinery and equipment	123,431	137,722
	409,933	436,427

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9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Receivables under service concession arrangements		
Current portion:	13,193	9,679
Non-current portion:	463,346	341,944
	476,539	351,623

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

The directors of the Company are of the view that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and all the balances are still considered fully recoverable. The directors of the Company are also of the view that none of the receivables under service concession arrangements is past due and impaired as at June 30, 2017 and December 31, 2016.

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10 INTANGIBLE ASSETS

	Operating concession <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)			
Six months ended June 30, 2017			
Opening net book amount as at January 1, 2017	49,901	25,296	75,197
Additions	–	2,436	2,436
Acquisition of subsidiaries (<i>Note 7</i>)	8,157	–	8,157
Amortisation (<i>Note 23</i>)	(693)	(1,593)	(2,286)
Closing net book amount as at June 30, 2017	57,365	26,139	83,504
(Unaudited)			
Six months ended June 30, 2016			
Opening net book amount as at January 1, 2016	44,778	23,869	68,647
Additions	–	475	475
Acquisition of subsidiaries	6,189	–	6,189
Amortisation (<i>Note 23</i>)	(455)	(1,346)	(1,801)
Closing net book amount as at June 30, 2016	50,512	22,998	73,510

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

11 INVESTMENTS IN ASSOCIATES

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

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the period	15,101	15,222
Share of results of associates	479	(178)
At the end of the period	15,580	15,044

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

	Assets	Liabilities	Revenues	Profits	Net assets
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended June 30, 2017 (unaudited)	9,340	2,718	793	479	6,622

No individual associate investment above is considered as material to the Group.

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For the six months ended June 30, 2017

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	2,513	1,468
– to be recovered after more than 12 months	22,332	22,229
	24,845	23,697
Deferred income tax liabilities:		
– to be recovered within 12 months	234	149
– to be recovered after more than 12 months	13,605	9,172
	13,839	9,321

Movements in deferred income tax assets and liabilities during the six months ended June 30, 2017 and 2016, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

	Unaudited Six months ended June 30,	
Deferred income tax assets	2017 RMB'000	2016 RMB'000
At the beginning of the period	24,404	25,700
Recognised in the consolidated statement of comprehensive income (Note 25)	(300)	(1,059)
At the end of the period	24,104	24,641

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12 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

Deferred income tax assets as at June 30, 2017 and 2016 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 land use rights injected by Kunming Dianchi Investment Co., Ltd. (“KDI”) upon the incorporation of the Company.

	Unaudited	
	Six months ended June 30,	
Deferred income tax liabilities	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the period	10,028	5,772
Acquisition of subsidiaries (Note 7)	2,039	434
Recognised in the consolidated statement of comprehensive income (Note 25)	1,031	1,675
At the end of the period	13,098	7,881

Deferred income tax liabilities were mainly related to fair value adjustment arising from acquisition of subsidiaries, differences arising from service concession receivables and differences arising from construction contracts as at June 30, 2017 and 2016.

13 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	Unaudited	Audited
	June 30,	December 31,
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Costs incurred to date plus recognised profits less recognised losses		
Current portion:	12,247	5,716
Non-current portion:	78,296	35,573
	90,543	41,289

Amounts due from customers for construction contracts of RMB53,428,000 were acquired from the acquisition of Hongze Water in January 2017 (Note 7(iii)).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

14 TRADE AND OTHER RECEIVABLES

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Trade receivables (Note (b)):		
– Third parties	3,128	941
– Related parties (Note 30)	84,865	39,678
– Local government	356,009	85,381
Trade receivables – net	444,002	126,000
Other receivables:		
– Third parties	13,613	54,287
– Related parties (Note 30)	54,535	39,472
– Local government	81,393	51,590
Other receivables – net	149,541	145,349
Prepayments:		
– Listing expenses (Note (a))	–	28,946
– Others	11,054	6,600
Prepayments – net	11,054	35,546
Trade and other receivables – net	604,597	306,895

The fair values of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximate to their net carrying amounts.

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

- (a) Upon successful listing on the Main Board of HKEX, the prepaid listing expenses were recorded as a deduction to the share premium (Note 16).

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

14 TRADE AND OTHER RECEIVABLES (Continued)

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

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
– Within one year	442,182	125,542
– Over one year and within two years	1,820	458
	444,002	126,000

Based on the past experiences, the directors of the Company believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and their respective related parties and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

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

15 CASH AND CASH EQUIVALENTS

- (a) Cash and cash equivalents are denominated in the following currencies:

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
RMB	1,035,917	446,830
HKD	348,017	–
USD	12,409	–
	1,396,343	446,830

- (b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at bank deposit rates at 0.35% during the six months ended June 30, 2017 and 2016.

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For the six months ended June 30, 2017

16 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares <i>thousands</i>	Share capital <i>RMB'000</i>
(Unaudited)		
At January 1, 2017	720,000	720,000
H shares issued (<i>Note (a)</i>)	309,111	309,111
At June 30, 2017	1,029,111	1,029,111
At January 1, 2016 and June 30, 2016	720,000	720,000

- (a) On April 6, 2017, the Company newly issued 308,572,000 H shares at HKD3.91 per share in connection with the initial listing of H shares of the Company on the Main Board of HKEX, and raised gross proceeds of approximately HKD1,206,517,000 (equivalent to RMB1,070,421,000). Subsequently on May 12, 2017, after the exercise of the over-allotment option, additional 539,000 H shares of RMB1.00 each were issued at HKD3.91 per share and raised gross proceeds of HKD2,107,000 (equivalent to RMB1,870,000). Net proceeds of RMB997,460,000 (after deducting the underwriting commissions and other listing expenses) was raised by the Company, of which RMB309,111,000 was credited to share capital with remaining RMB688,349,000 credited to share premium (*Note 17*).

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17 OTHER RESERVES

	Share premium (Note 16) RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Currency translation differences reserve RMB'000	Total RMB'000
At January 1, 2017	595,091	149,215	(47,793)	–	696,513
Proceeds from H shares issued (Note 16)	688,349	–	–	–	688,349
Currency translation differences	–	–	–	(516)	(516)
At June 30, 2017 (unaudited)	1,283,440	149,215	(47,793)	(516)	1,384,346
At January 1, 2016 and June 30, 2016 (unaudited)	595,091	121,763	(47,793)	–	669,061

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For the six months ended June 30, 2017

18 BORROWINGS

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Non-current:		
Unsecured long-term borrowings	30,000	—
Secured long-term borrowings (Note (b))	3,416	48,356
Corporate bonds (Note (c))	694,029	693,639
Total non-current borrowings	727,445	741,995
Current:		
Unsecured short-term borrowings	920,000	660,000
Secured short-term borrowings (Note (b))	99,934	118,737
Total current borrowings	1,019,934	778,737
Total borrowings	1,747,379	1,520,732

(a) All the borrowings were denominated in RMB.

(b) As at June 30, 2017 and December 31, 2016, analysis of the secured borrowings is as follows:

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Secured by:		
Property, plant and equipment	103,350	167,093

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For the six months ended June 30, 2017

18 BORROWINGS (Continued)

- (c) As approved by the National Development and Reform Commission on November 25, 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on December 25, 2015. At the end of the fifth year, the Company can adjust the interest rate within the range from 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't accept the adjusted interest rate.
- (d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at June 30, 2017 (Unaudited)	703,350	320,000	724,029	1,747,379
As at December 31, 2016 (Audited)	317,093	510,000	693,639	1,520,732

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

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
On demand or within 1 year	1,019,934	778,737
Between 1 and 2 years	33,416	48,356
Later than 5 years	694,029	693,639
	1,747,379	1,520,732

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For the six months ended June 30, 2017

18 BORROWINGS (Continued)

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

	Unaudited June 30, 2017	Audited December 31, 2016
Borrowings	4.42%	4.78%

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

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

	Unaudited June 30, 2017 <i>RMB'000</i>	Audited December 31, 2016 <i>RMB'000</i>
RMB facilities	1,350,000	740,000

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19 DEFERRED REVENUE

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

Government grants relating to purchase of property, plant and equipment are recognised to the consolidated statements of comprehensive income on a straight-line basis over the estimated lives of the related asset.

Government grants relating to research and development activities are recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs intended to compensate.

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Government grants relating to:		
– property plant and equipment	105,430	95,835
– research and development activities	7,949	11,286
	113,379	107,121

The movements of government grants during the six months ended June 30, 2017 and 2016 are set out as follows:

	Unaudited Six months ended June 30, 2017 RMB'000	2016 RMB'000
Opening net book value	107,121	110,623
Additions	14,620	4,333
Amortisation (<i>Note 21</i>)	(8,362)	(3,495)
Closing net book value	113,379	111,461

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20 TRADE AND OTHER PAYABLES

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Trade payables	3,725	2,093
Other payables due to:	51,657	53,176
– related parties (Note 30)	18,117	20,881
– third parties	33,540	32,295
Consideration payable for acquisition of subsidiaries (Note 7)	–	18,447
Staff salaries and welfare payables	17,800	28,661
Advances from customers	8,513	12,177
– related parties (Note 30)	6,817	9,879
– third parties	1,696	2,298
Payables on acquisition of property, plant and equipment due to:	150,589	151,957
– related parties (Note 30)	29,769	29,769
– third parties	120,820	122,188
Payables on acquisition of land use rights from related parties (Note 30)	58,194	58,194
Dividend payables (Note 27)	102,911	–
Interest payables	17,318	1,310
Accrued taxes other than income tax	83,286	96,324
	493,993	422,339

- (a) All trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.
- (b) The Group's trade and other payables are denominated in RMB.
- (c) Ageing of trade payables to third parties at the respective balance sheet dates is all within one year.

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21 OTHER INCOME

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants:	39,863	34,048
– relating to property plant, and equipment (<i>Note 19</i>)	5,025	1,997
– relating to research and development activities (<i>Note 19</i>)	3,337	1,498
– relating to tax refund (<i>Note (a)</i>)	31,501	30,553
Interest income from cash and cash equivalents	3,449	2,514
Others	1,181	2,538
	44,493	39,100

- (a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of Value-added Tax (“VAT”) refund upon collection from July 1, 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

22 OTHER (LOSSES)/GAINS – NET

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Gains on disposal of property, plant and equipment – net	–	89
Gains on disposal of land use rights – net	–	2,420
Others	(8)	45
	(8)	2,554

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23 EXPENSES BY NATURE

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Depreciation of property, plant and equipment (<i>Note 8</i>)	82,411	78,809
Cost of construction services	58,458	31,689
Employee benefit expenses	48,394	43,443
Utilities and electricity	41,077	37,602
Costs of wastewater and water supply services	19,943	24,592
– Material costs	14,173	19,287
– Costs for sludge and water hyacinth treatment	5,770	5,305
Taxes and levies	15,495	11,398
Listing expenses	13,255	1,253
Professional expenses	11,093	5,484
Labour costs	9,227	7,855
Repair and maintenance costs	6,053	5,592
Amortisation of land use rights (<i>Note 8</i>)	4,914	4,266
Commission charge (<i>Note 30</i>)	3,699	3,952
Transportation costs	3,228	3,197
Office expenditures	3,049	2,833
Materials used in research and development activities	2,640	1,872
Amortisation of intangible assets (<i>Note 10</i>)	2,286	1,801
Auditor's remuneration	1,928	155
Miscellaneous	5,502	6,168
Total cost of sales, selling expenses, administrative expenses and research and development expenses	332,652	271,961

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24 FINANCE EXPENSES – NET

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Finance income:		
– Interest income charged to related parties (<i>Note 30</i>)	14,693	–
– Interest income arising from construction contracts	3,849	848
– Others	–	53
	18,542	901
Finance expenses:		
– Interest expenses on borrowings	(39,194)	(49,551)
– Less: borrowing costs capitalised in property, plant and equipment	5,237	6,486
– Interest expenses – net	(33,957)	(43,065)
– Exchange losses	(17,911)	–
– Others	(67)	(44)
	(51,935)	(43,109)
Finance expenses – net	(33,393)	(42,208)

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25 INCOME TAX EXPENSE

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

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	24,168	19,861
Deferred income tax (<i>Note 12</i>)	1,331	2,734
Income tax expense	25,499	22,595

Under the Law of the PRC on Corporate Income Tax (the “**CIT Law**”) and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from January 1, 2008. The income tax rate of 25% is applicable to all of the Group’s PRC subsidiaries during the six months ended June 30, 2017 and 2016, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

- (a) China’s west region development policy (the “**West Region Development Policy**”) is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the six months ended June 30, 2017 and 2016, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.
- (b) In addition to the West Region Development Policy, the Company also qualifies as a “High-tech Enterprise” since 2014 and enjoys a 15% enterprise income tax rate.
- (c) 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.
- (d) Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.
- (e) The forecasted effective tax rate for the year ended December 31, 2017 is 16.11% and the effective tax rate for the year ended December 31, 2016 was 15.66%.

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26 EARNINGS PER SHARE

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

	Unaudited	
	Six months ended June 30,	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	132,337	129,263
Weighted average number of ordinary shares in issue (thousand)	865,061	720,000
Basic earnings per share (RMB)	0.15	0.18

- (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 June 30, 2017 and 2016.

27 DIVIDENDS

As approved by the annual general meeting held on June 19, 2017, the Company determined to pay a cash dividend for the year ended December 31, 2016 of RMB0.10 (tax inclusive) for every ordinary share amounting to RMB102,911,100 out of retained earnings of the Company. The declaration of these dividends had not been reflected as dividends payable in the consolidated financial statements for the year ended December 31, 2016 but have been reflected as dividends distribution for the six months ended June 30, 2017. The 2016 dividends are expected to be paid to the shareholders by the August 31, 2017.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

28 CASH USED IN OPERATING ACTIVITIES

Reconciliation of profit before income tax to cash used in operations

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Profit for the period before income tax	158,278	152,008
Adjustments for:		
– Depreciation of property, plant and equipment <i>(Note 23)</i>	82,411	78,809
– Amortisation of land use rights <i>(Note 23)</i>	4,914	4,266
– Amortisation of intangible assets <i>(Note 23)</i>	2,286	1,801
– Amortisation of government grants relating to purchase of property, plant and equipment <i>(Note 21)</i>	(5,025)	(1,997)
– Gains on disposal of property, plant and equipment <i>(Note 22)</i>	–	(89)
– Share of results of associates <i>(Note 11)</i>	(479)	178
– Finance expenses – net	33,326	42,164
	275,711	277,140
Changes in working capital:		
– Increase in trade and other receivables	(229,958)	(105,874)
– Decrease/(increase) in inventories	539	(1,026)
– Decrease/(increase) in amounts due from customers for construction contracts	4,174	(4,088)
– Increase in receivables under service concession arrangements	(57,194)	(30,191)
– (Decrease)/increase in deferred revenue relating to research and development activities	(3,337)	2,435
– Decrease in trade and other payables	(175,734)	(151,844)
Cash used in operations	(185,799)	(13,448)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

29 COMMITMENTS

(a) Capital commitments

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

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Property, plant and equipment	391,160	458,123
Land use rights and intangible assets	14,908	16,978
	406,068	475,101

(b) Operating lease commitments – the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
No later than 1 year	121	121
Later than 1 year and no later than 2 year	121	121
Later than 2 year and no later than 5 year	363	363
Later than 5 years	2,313	2,374
	2,918	2,979

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS

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

The Company is controlled by KDI which is a government-related enterprise established in the PRC by Kunming State-owned Assets Supervision and Administration Commission (“**Kunming SASAC**”). In accordance with IAS 24 (Revised), “Related Party Disclosures”, issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group’s significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in this Condensed Consolidated Interim Financial Information.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended June 30, 2017 and 2016, and balances arising from related party transactions as at June 30, 2017 and December 31, 2016.

(a) Name and relationship with related parties

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, for the period ended June 30, 2017 and 2016, the Group had the following significant transactions with related parties.

(i) Purchase of property, plant and equipment

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
KDI	–	448,884

(ii) Purchase of land use rights

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
KDI	–	67,984
Xindu Investment	–	31,000
	–	98,984

(iii) Loans granted to related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
KDI	31,366	27,802
Xindu Investment	–	760
	31,366	28,562

The transactions under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

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For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(iv) Loans repaid from related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
KDI	31,366	27,802

(v) Interest income from related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
KDI	14,693	—

(vi) Transportation services provided to related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Dianchi Lakes	396	304

(vii) Services provided to related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
KDI	41,547	27,881

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For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

(viii) Commission charged by related parties:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Kunming CGE	3,344	3,474
Kunming Qingyuan	355	478
	3,699	3,952

(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 June 30,	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	764	532
Contributions to pension plans	124	104
Housing fund, medical insurance and other social insurance	199	194
	1,087	830

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties

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

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
KDI	88,324	30,677
Xindu Investment	24,232	24,232
Kunming CGE	19,376	18,295
Kunming Qingyuan	7,468	5,946
	139,400	79,150

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

(ii) Other payables due to related parties:

	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
<i>Acquisition of property, plant and equipment:</i>		
KDI	13,729	13,729
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	17,520	19,039
Kunming CGE	597	1,664
Kunming Qingyuan	-	178
	106,080	108,844

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended June 30, 2017

30 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

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

	Unaudited June 30, 2017 <i>RMB'000</i>	Audited December 31, 2016 <i>RMB'000</i>
KDI	6,817	9,879