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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

2023 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

For the six months ended 30 June 2023, the Group's:

- revenue amounted to approximately RMB862.8 million, representing of a decrease of 5.1% from the corresponding period of last year;
- profit before tax amounted to approximately RMB201.4 million, representing a decrease of 2.7% from the corresponding period of last year;
- net profit attributable to the equity holders of the Company amounted to approximately RMB165.9 million, representing a decrease of 9.2% from the corresponding period of last year;
- earnings per share amounted to approximately RMB0.16, representing a decrease of 11.1% from the corresponding period of last year.

The board (the “**Board**”) of directors (the “**Director(s)**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**us**” or “**our**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2022, as follows:

I. INTERIM FINANCIAL INFORMATION AND NOTES THERETO

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	862,833	909,091
Cost of sales	25	<u>(462,325)</u>	<u>(516,153)</u>
Gross profit		400,508	392,938
Selling expenses	25	(1,038)	(3,788)
Administrative expenses	25	(37,144)	(50,710)
Research and development expenses	25	–	(185)
Net impairment losses on financial and contract assets		<u>(30,898)</u>	(9,997)
Other income	23	11,325	20,739
Other losses	24	<u>(1,897)</u>	<u>(1,048)</u>
Operating profit		<u>340,856</u>	<u>347,949</u>
Finance income	26	19,933	22,409
Finance costs	26	<u>(159,366)</u>	<u>(163,127)</u>
Finance costs – net	26	<u>(139,433)</u>	<u>(140,718)</u>
Share of results of associates		<u>–</u>	<u>(363)</u>
Profit before tax		201,423	206,868
Income tax expense	27	<u>(34,499)</u>	<u>(23,382)</u>

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

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
Profit for the period		166,924	183,486
Profit for the period attributable to:			
– Equity holders of the Company		165,945	182,826
– Non-controlling interests		979	660
		<u>166,924</u>	<u>183,486</u>
Other comprehensive income for the period			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on consolidation		<u>(99)</u>	<u>2,830</u>
Total comprehensive income for the period		<u>166,825</u>	<u>186,316</u>
Total comprehensive income for the period attributable to:			
– Equity holders of the Company		165,846	185,656
– Non-controlling interests		979	660
		<u>166,825</u>	<u>186,316</u>
Earnings per share for profit for the period attributable to equity holders of the Company (expressed in RMB per share)		0.16	0.18
– Basic and diluted earnings per share	28	<u>0.16</u>	<u>0.18</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

		Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Investment properties	7	277,462	277,462
Right-of-use assets/land use rights	8	406,026	411,454
Property, plant and equipment	9	2,644,076	2,716,650
Receivables under service concession arrangements	10	2,534,349	2,546,421
Amounts due from customers for construction contracts	16	657,056	675,715
Contract assets	15	143,839	109,121
Intangible assets	11	534,571	547,180
Investments in associates	12	–	6,526
Deferred income tax assets	13	86,591	81,028
		<u>7,283,970</u>	<u>7,371,557</u>
Current assets			
Receivables under service concession arrangements	10	47,997	44,128
Inventories		28,450	21,890
Amounts due from customers for construction contracts	16	34,855	35,602
Financial assets at amortised cost	14	210,000	240,000
Trade and other receivables	15	4,199,112	3,676,339
Cash and bank balances	17	96,942	131,494
Restricted funds	17	167,203	181,194
		<u>4,784,559</u>	<u>4,330,647</u>
Total assets		<u>12,068,529</u>	<u>11,702,204</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited	Audited
		30 June	31 December
		2023	2022
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Deferred revenue	21	243,617	230,943
Borrowings	20	1,847,339	2,522,693
Deferred income tax liabilities	13	<u>51,067</u>	<u>51,903</u>
		<u>2,142,023</u>	<u>2,805,539</u>
Current liabilities			
Trade and other payables	22	1,027,603	806,410
Tax payables		107,378	79,431
Borrowings	20	3,956,659	3,346,394
Contract liabilities	22	<u>9,695</u>	<u>6,839</u>
		<u>5,101,335</u>	<u>4,239,074</u>
Total liabilities		<u>7,243,358</u>	<u>7,044,613</u>
Net assets		<u>4,825,171</u>	<u>4,657,591</u>
CAPITAL AND RESERVES			
Share capital	18	1,029,111	1,029,111
Other reserves	19	1,576,108	1,575,452
Accumulated profits		<u>2,210,372</u>	<u>2,044,427</u>
Equity attributable to owners of the Company		<u>4,815,591</u>	4,648,990
Non-controlling interests		<u>9,580</u>	<u>8,601</u>
Total equity		<u>4,825,171</u>	<u>4,657,591</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated profits	Total	Non-controlling interests	Total equity
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2022	1,029,111	1,543,576	1,854,715	4,427,402	8,409	4,435,811
Comprehensive income:						
Profit for the period	-	-	182,826	182,826	660	183,486
Other comprehensive income	-	-	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-	-	-	-	-
Exchange differences on consolidation	-	2,830	-	2,830	-	2,830
	<u>-</u>	<u>2,830</u>	<u>-</u>	<u>2,830</u>	<u>-</u>	<u>2,830</u>
Total comprehensive income for the period	-	2,830	182,826	185,656	660	186,316
	<u>-</u>	<u>2,830</u>	<u>182,826</u>	<u>185,656</u>	<u>660</u>	<u>186,316</u>
Transactions with owners:						
Dividends in respect of previous year approved	-	-	(102,911)	(102,911)	-	(102,911)
Dividends to non-controlling shareholders	-	-	-	-	(1,693)	(1,693)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,693)</u>	<u>(1,693)</u>
As at 30 June 2022	<u>1,029,111</u>	<u>1,546,406</u>	<u>1,934,630</u>	<u>4,510,147</u>	<u>7,376</u>	<u>4,517,523</u>
As at 1 January 2023	1,029,111	1,575,452	2,044,427	4,648,990	8,601	4,657,591
Comprehensive income:						
Profit for the period	-	-	165,945	165,945	979	166,924
Other comprehensive income	-	-	-	-	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-	-	-	-	-
Exchange differences on consolidation	-	(99)	-	(99)	-	(99)
	<u>-</u>	<u>(99)</u>	<u>-</u>	<u>(99)</u>	<u>-</u>	<u>(99)</u>
Total comprehensive income for the period	-	(99)	165,945	165,846	979	166,825
	<u>-</u>	<u>(99)</u>	<u>165,945</u>	<u>165,846</u>	<u>979</u>	<u>166,825</u>
Transactions with owners:						
Dividends in respect of previous year approved	-	-	-	-	-	-
Dividends to non-controlling shareholders	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Others	-	755	-	755	-	755
As at 30 June 2023	<u>1,029,111</u>	<u>1,576,108</u>	<u>2,210,372</u>	<u>4,815,591</u>	<u>9,580</u>	<u>4,825,171</u>

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash generated from operations	29	242,173	23,808
Interest paid		(124,888)	(110,710)
Income tax paid		(12,359)	(55,737)
Net cash generated from/(used in) operating activities		104,926	(142,639)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(32,674)	(121,314)
Purchase of intangible assets		(198)	–
Advances to related parties		(142,000)	(560,000)
Loans to related parties		(80,000)	–
Repayments from related parties		130,000	650,000
Interest received		28,159	12,166
Government grants received relating to purchase of property, plant and equipment		17,705	–
Cash expenditures for acquisition of subsidiaries		–	(17,435)
Proceeds from disposal of property, plant and equipment		57	163
Proceeds from disposal of a subsidiary		27,721	–
Settlement of financial liabilities at FVPL		–	(30,565)
Net cash (used in) investing activities		(51,230)	(66,985)

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds from borrowings	1,901,600	2,061,076
Increase of restricted fund	–	(12,963)
Repayments of borrowings	(1,990,507)	(2,861,751)
Dividends declared and paid to non-controlling shareholders	–	(1,693)
	<u>(88,907)</u>	<u>(815,331)</u>
Net cash (used in) financing activities	(88,907)	(815,331)
Net (decrease) in cash and cash equivalents	(35,211)	(1,024,955)
Cash and cash equivalents at beginning of the period	131,494	1,504,346
Effect of exchange rate changes	659	346
	<u>96,942</u>	<u>479,737</u>
Cash and cash equivalents at end of the period	96,942	479,737

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

The Group is principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated.

This condensed consolidated interim financial information on pages 2 to 45 were approved for issue by the Board on 25 August 2023.

This condensed consolidated interim financial information has not been audited.

Significant changes in the current Reporting Period

For a detailed discussion about the Group’s performance and financial position, please refer to Chapter Two “Management discussion and analysis” as set out on pages 46 to 69 of this announcement.

2. BASIS OF PREPARATION

Statement of compliance

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

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

This condensed consolidated interim financial report for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 Interim Financial Reporting.

2. BASIS OF PREPARATION (CONTINUED)

Statement of compliance (Continued)

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2022. They have been prepared on the historical cost basis, except for the investment properties and financial liabilities at fair value through profit or loss, which are measured at fair value. The accounting policies used in preparing these unaudited condensed consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2022. As of the date of approval of the unaudited condensed consolidated financial statements, the International Accounting Standards Board has issued the following new/revised international financial reporting standards that are relevant to the Group and not yet effective for the current financial year and have not been early adopted by the Group:

Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IFRS 10 and IAS 28	Asset sales or capital contributions between investors and their associated companies or joint ventures
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback

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

3. CHANGES IN ACCOUNTING POLICIES

During the current interim period, the Group has applied, for the first time, the following new IFRSs and amendments thereto issued by the IASB, which are mandatorily effective for annual periods beginning on or after 1 January 2023, in preparing its condensed consolidated financial statements:

Amendments to IAS 1 and IFRS Practice Statement No. 2	Disclosure of accounting policy
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction

The application of the new IFRSs and amendments thereto in the current interim period has had no material impact on the Group's financial position and performance for the current and prior periods and/or the disclosures set out in these condensed consolidated financial statements.

4. ESTIMATES

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2022 of the Group.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2022 of the Group.

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

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars (“HKD”) and United States dollars (“USD”). Foreign exchange risk arises from cash and cash equivalents and borrowings denominated in HKD and USD.

As at 30 June 2023, if RMB had weakened/strengthened by 1% (30 June 2022: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, net profit for the six months ended 30 June 2023 would have been approximately RMB67,000 (31 December 2022: approximately RMB931,000) higher/lower. If RMB had weakened/strengthened by 1% (30 June 2022: 1%) against HKD and USD denominated borrowings with all other variables held constant, financial costs for the year would have been approximately RMB7,450,000 (30 June 2022: approximately RMB9,699,000) lower/higher.

5.3 Credit risk

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

All the cash and cash equivalents were deposited in the major financial institutions in Hong Kong and the PRC, which the Directors of the Company believe are of high credit quality.

For receivables, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. As at 30 June 2023, the ageing analysis of trade receivables is set out in Note 15.

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

(i) Trade receivables

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

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 1 January 2023 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. There was no change in the estimation techniques or significant assumptions made during the period.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Credit risk (Continued)

(i) Trade receivables (Continued)

The following table provides information about the exposure to credit risk for trade receivables which are assessed on collective basis by using provision matrix within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of approximately RMB12,035,000 as at 30 June 2023 (31 December 2022: approximately RMB12,035,000) were assessed individually.

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 30 June 2023				
Expected loss rate	1.05%	2.49%	3.18%	
Gross carrying amount (RMB'000)	2,067,513	1,084,673	226,390	3,378,576
Loss allowance provision (RMB'000)	(21,776)	(27,042)	(7,208)	(56,026)
	<u>2,045,737</u>	<u>1,057,631</u>	<u>219,182</u>	<u>3,322,550</u>
	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2022				
Expected loss rate	1.26%	3.25%	9.70%	
Gross carrying amount (RMB'000)	1,761,353	1,041,909	140,014	2,943,276
Loss allowance provision (RMB'000)	(22,207)	(33,883)	(13,587)	(69,677)
	<u>1,739,146</u>	<u>1,008,026</u>	<u>126,427</u>	<u>2,873,599</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At 31 December 2022 and 1 January 2023	69,677	12,035	81,712
Impairment losses recognised, net	(13,651)	–	(13,651)
At 30 June 2023	<u>56,026</u>	<u>12,035</u>	<u>68,061</u>

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Credit risk (Continued)

(i) Trade receivables (Continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over five years past due, whichever occurs earlier.

As at 30 June 2023, the Group reversed loss allowance of approximately RMB13,651,000 (year ended 31 December 2022: approximately RMB25,050,000 recognised) on the trade receivables. The movement in the loss allowance for trade receivables is summarised below.

	30 June 2023 RMB'000	31 December 2022 RMB'000
At the beginning of the Reporting Period	81,712	56,898
(Reversal)/increase of allowance, net	(13,651)	25,050
Transfer to assets classified as held for sale	—	(236)
	<u> </u>	<u> </u>
At the end of the Reporting Period	<u>68,061</u>	<u>81,712</u>

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

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

As at 30 June 2023, the Group does not hold any collateral to cover its credit risks associated with its receivables under service concession arrangements, amounts due from customers for construction contracts, other receivables and contract assets, except for financial asset at amortised cost.

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

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Credit risk (Continued)

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

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

Internal credit rating	Description	Trade receivables	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

On the basis as stated, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts, other receivables (except for the tax rebate which are not financial assets), financial assets at amortised cost and contract assets amounted to approximately RMB197,224,000 (31 December 2022: approximately RMB153,284,000) was recognised at 30 June 2023 as follows:

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Contract assets	Total
As at 30 June 2023						
Expected loss rate	1.98%	2.00%	4.55%	30.00%	2.00%	
Gross carrying amount (RMB'000)	2,634,443	706,032	837,560	300,000	146,774	4,624,809
Loss allowance provision (RMB'000)	(52,097)	(14,121)	(38,071)	(90,000)	(2,935)	(197,224)
	<u>2,582,346</u>	<u>691,911</u>	<u>799,489</u>	<u>210,000</u>	<u>143,839</u>	<u>4,427,585</u>

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.3 Credit risk (Continued)

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

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Financial assets at amortised cost	Contract assets	Total
As at 31 December 2022						
Expected loss rate	2.08%	2.00%	3.14%	20.00%	0.00%	
Gross carrying amount (RMB'000)	2,645,645	725,834	754,211	300,000	109,121	4,534,811
Loss allowance provision (RMB'000)	(55,096)	(14,517)	(23,671)	(60,000)	-	(153,284)
	<u>2,590,549</u>	<u>711,317</u>	<u>730,540</u>	<u>240,000</u>	<u>109,121</u>	<u>4,381,527</u>

On the basis as stated, the increase in total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts, other receivables (except for the tax rebate which are not financial assets), financial assets at amortised cost and contract assets amounted to approximately RMB43,940,000 (31 December 2022: approximately RMB89,466,000) was recognised at 30 June 2023 as follows:

	30 June 2023	31 December 2022
	RMB'000	RMB'000
At the beginning of the Reporting Period	153,284	63,818
Increase in allowance	43,940	89,466
At the end of the Reporting Period	<u>197,224</u>	<u>153,284</u>

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.

	Weighted average effective interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying
							amount at 30 June 2023 RMB'000
As at 30 June 2023							
Borrowings	5.33	4,195,580	1,086,970	658,334	581,563	6,522,447	5,803,998
Financial liabilities included in trade and other payables	-	995,403	-	-	-	995,403	995,403
		<u>5,190,983</u>	<u>1,086,970</u>	<u>658,334</u>	<u>581,563</u>	<u>7,517,850</u>	<u>6,799,401</u>

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.4 Liquidity risk (Continued)

	Weighted average effective interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2022 RMB'000
As at 31 December 2022							
Borrowings	4.05	3,542,322	1,024,977	1,421,207	381,302	6,369,808	5,869,087
Financial liabilities included in trade and other payables	–	743,117	–	–	–	743,117	743,117
		<u>4,285,439</u>	<u>1,024,977</u>	<u>1,421,207</u>	<u>381,302</u>	<u>7,112,925</u>	<u>6,612,204</u>

5.5 Fair value estimation

(a) The table below presents financial instruments carried at fair value, by different measurement methods. The measurement levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).
- The following table shows the Group's assets and liabilities that are regularly measured at fair value as at 30 June 2023:

At 30 June 2023 (Unaudited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets/(liabilities)				
Investment properties	–	–	277,462	277,462

- The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2022 on a recurring basis:

At 31 December 2022 (Audited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets/(liabilities)				
Investment properties	–	–	277,462	277,462

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.5 Fair value estimation (Continued)

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

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

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

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

6. SEGMENT AND REVENUE INFORMATION

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

The 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 services, transportation services, construction services, thermal production and treasury functions.

The 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 tax payables.

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

6. SEGMENT AND REVENUE INFORMATION (CONTINUED)

(a) Revenue

The revenue of the Group for the six months ended 30 June 2023 and 2022 are set out as follows:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	561,624	587,185
Operating services – under TOO model	438,096	436,552
Operating services – under TOT/BOT model	86,501	118,662
Construction services – under BT model	–	2,906
Construction services – under BOT model	10,621	–
Finance income	26,406	29,065
Reclaimed water supply and running water supply	61,125	58,965
Operating services – under TOO model	26,274	15,177
Operating services – under TOT/BOT model	18,026	15,606
Construction services – under BOT model	4,137	18,747
Finance income	12,688	9,435
Other businesses	240,084	262,941
Management services	91,213	173,855
Transportation services	335	3,739
Construction services – under BOT model	34,733	–
Thermoelectricity services	82,657	84,475
Others	31,146	872
	862,833	909,091

6. SEGMENT AND REVENUE INFORMATION (CONTINUED)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2023 is as follows:

	For the six months ended 30 June 2023 (Unaudited)			
Business segment	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>561,624</u>	<u>61,125</u>	<u>240,084</u>	<u>862,833</u>
Segment gross profit	<u>264,080</u>	<u>40,928</u>	<u>95,500</u>	<u>400,508</u>
Segment profit	<u>223,907</u>	<u>38,203</u>	<u>78,746</u>	<u>340,856</u>
Finance income				19,933
Finance costs				<u>(159,366)</u>
Profit before tax				<u><u>201,423</u></u>
Other information				
Depreciation of property, plant and equipment	89,364	5,585	5,690	100,639
Depreciation expense of right-of-use assets	3,957	114	1,357	5,428
Amortisation of intangible assets	10,712	457	1,868	13,037
Impairment loss on trade receivables	(12,764)	607	(1,494)	(13,651)
Impairment loss on financial assets at amortised cost	–	–	30,000	30,000
Capital expenditure	<u>10,943</u>	<u>18,873</u>	<u>805</u>	<u>30,621</u>
				As at 30 June 2023 (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	<u>8,069,268</u>	<u>547,407</u>	<u>3,365,263</u>	<u>11,981,938</u>
Unallocated:				
Deferred income tax assets				<u>86,591</u>
Total assets				<u><u>12,068,529</u></u>
Segment liabilities	<u>4,646,349</u>	<u>497,661</u>	<u>1,940,903</u>	<u>7,084,913</u>
Unallocated:				
Deferred income tax liabilities				51,067
Tax payables				<u>107,378</u>
Total liabilities				<u><u>7,243,358</u></u>

6. SEGMENT AND REVENUE INFORMATION (CONTINUED)

(b) Segment information (Continued)

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

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

6. SEGMENT AND REVENUE INFORMATION (CONTINUED)

(c) Geographical information

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

(d) Information about major customers

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Customer A	207,399	440,592
Customer B	232,428	N/A*
Customer C	N/A*	162,485

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

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

7. INVESTMENT PROPERTIES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
At fair value		
At the beginning of the Reporting Period	277,462	276,377
Change in fair value	—	—
At the end of the Reporting Period	277,462	276,377

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

For the six months ended 30 June 2023, a fair value gain of approximately RMB0 (30 June 2022: approximately RMB0) was recognised in the consolidated income statement.

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

7. INVESTMENT PROPERTIES (CONTINUED)

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

Investment properties	Unaudited 30 June 2023 Fair value RMB'000	Audited 31 December 2022 Fair value RMB'000	Valuation techniques	Prevailing market rent per month	Adjusted unit price	Capitalisation rate
Entire buildings No. 1, No. 2 and No.3 (including basement) of the Kunming No. 2 Water Purification Plant	252,040	252,040	Income capitalization	RMB32.6 to RMB35.4 per square meter	N/A	6%
Six management buildings of the Kunming No. 3 Water Purification Plant	11,618	11,618	Income capitalisation	RMB32.6 to RMB35.4 per square meter	N/A	6%
Two pieces of lands located at the Paper Making Industry Base in Dayao Town, Liyang City	13,804	13,804	Direct comparison	N/A	RMB338 to RMB341 per square meter	N/A

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

No investment properties were pledged as at 30 June 2023.

8. RIGHT-OF-USE ASSETS/LAND USE RIGHTS

The Group's right-of-use assets represents the prepaid lease payments for land located in the PRC.

	Land use rights RMB'000	Total RMB'000
(Unaudited)		
Reconciliation of carrying amount		
– for the six months ended 30 June 2023		
At the beginning of the Reporting Period	411,454	411,454
Depreciation	(5,428)	(5,428)
At the end of the Reporting Period	<u>406,026</u>	<u>406,026</u>
Reconciliation of carrying amount		
– for the six months ended 30 June 2022		
At the beginning of the Reporting Period	424,945	424,945
Depreciation	(5,203)	(5,203)
At the end of the Reporting Period	<u>419,742</u>	<u>419,742</u>

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office and electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)						
Six months ended 30 June 2023						
At the beginning of the Reporting Period	1,837,525	555,318	36,539	17,635	269,633	2,716,650
Additions (a)	918	5,399	443	6	23,855	30,621
Others	-	(230)	-	-	(375)	(605)
Disposals	-	-	-	(1,951)	-	(1,951)
Depreciation (Note 25)	(54,239)	(39,387)	(6,032)	(981)	-	(100,639)
At the end of the Reporting Period	<u>1,784,204</u>	<u>521,100</u>	<u>30,950</u>	<u>14,709</u>	<u>293,113</u>	<u>2,644,076</u>
(Unaudited)						
Six months ended 30 June 2022						
At the beginning of the Reporting Period	1,770,084	597,487	60,167	8,275	201,077	2,637,090
Additions	248	2,249	6,703	6,455	159,878	175,533
Transfers to assets classified as held for sale	(495)	(3)	(1,060)	(54)	(4,116)	(5,728)
Others	-	-	-	-	(2,128)	(2,128)
Disposals	-	(7)	(5)	(305)	-	(317)
Depreciation (Note 25)	(49,406)	(45,562)	(3,564)	(1,894)	-	(100,426)
At the end of the Reporting Period	<u>1,720,431</u>	<u>554,164</u>	<u>62,241</u>	<u>12,477</u>	<u>354,711</u>	<u>2,704,024</u>

(a) For the six months ended 30 June 2023, additions were approximately RMB30,621,000 and the depreciation was approximately RMB100,639,000.

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

	Unaudited 30 June 2023 <i>RMB'000</i>	Audited 31 December 2022 <i>RMB'000</i>
Buildings and facilities	427,292	351,163
Machinery and equipment	385,863	357,567
Office and electronic equipment	-	7,275
Motor vehicles	-	211
	<u>813,155</u>	<u>716,216</u>

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	48,977	45,029
Loss allowance	(980)	(901)
	<u>47,997</u>	<u>44,128</u>
Non-current portion:		
Receivables under service concession arrangements	2,585,466	2,600,616
Loss allowance	(51,117)	(54,195)
	<u>2,534,349</u>	<u>2,546,421</u>
	<u><u>2,582,346</u></u>	<u><u>2,590,549</u></u>

11. INTANGIBLE ASSETS

	Computer software RMB'000	Operating concession RMB'000	Total RMB'000
(Unaudited)			
Six months ended 30 June 2023			
Opening net book value	7,876	539,304	547,180
Addition	–	428	428
Amortisation (Note 25)	(1,662)	(11,375)	(13,037)
	<u>6,214</u>	<u>528,357</u>	<u>534,571</u>
Closing net book value	<u><u>6,214</u></u>	<u><u>528,357</u></u>	<u><u>534,571</u></u>
(Unaudited)			
Six months ended 30 June 2022			
Opening net book value	8,272	305,222	313,494
Transfers to assets classified as held for sale	–	(1,275)	(1,275)
Amortisation (Note 25)	(1,695)	(9,635)	(11,330)
	<u>6,577</u>	<u>294,312</u>	<u>300,889</u>
Closing net book value	<u><u>6,577</u></u>	<u><u>294,312</u></u>	<u><u>300,889</u></u>

12. INVESTMENTS IN ASSOCIATES

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 <i>RMB'000</i>
Unlisted shares		
Share of net assets	–	2,760
Goodwill	5,631	9,342
Less: Provision of impairment	(5,631)	(5,576)
	<hr/>	<hr/>
At the end of the Reporting Period	–	6,526
	<hr/> <hr/>	<hr/> <hr/>

Fair value of investments

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

During the Reporting Period, the Group disposed of the shares of its associate, Dianchi Jiajing, which were previously held by the Group, and received proceeds from the disposal of RMB6.5 million.

Financial information of associates

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

12. INVESTMENTS IN ASSOCIATES (CONTINUED)

Financial information of associates (Continued)

Details of the associates at the end of the Reporting Period are as follows.

Name of entities	Country/place and date of establishment	Paid-up capital <i>RMB'000</i>	Proportion of ownership interest held by the Group		Principal activities
			Unaudited	Audited	
			30 June 2023	31 December 2022	
Yunnan Dianchi Information Construction Management Co., Ltd.* (雲南滇池信息建設管理有限公司, “Dianchi Information”)	PRC, Kunming 14 May 2012	2,500	40%	40%	Construction of communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd.* (雲南滇池嘉淨環保科技有限公司, “Dianchi Jiajing”)	PRC, Kunming 13 April 2012	11,600	–	40%	Research and promotion of environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd.* (昆明藻井泉香生物科技有限公司, “Kunming Zaojing”)	PRC, Kunming 12 August 2010	8,000	35%	35%	Research and development of biological products

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

	Assets <i>RMB'000</i>	Liabilities <i>RMB'000</i>	Revenues <i>RMB'000</i>	Losses <i>RMB'000</i>	Net assets <i>RMB'000</i>
For the six months ended 30 June 2023	<u>3,809</u>	<u>4,645</u>	<u>730</u>	<u>(860)</u>	<u>(836)</u>
For the year ended 31 December 2022	<u>4,506</u>	<u>1,746</u>	<u>192</u>	<u>(691)</u>	<u>2,760</u>

Note: The Group has not recognised the share of loss of associates for the period as its interest in such associate has been reduced to RMB0 and its recognition is limited to RMB0.

13. DEFERRED INCOME TAX ASSETS AND LIABILITIES

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	46,564	42,710
– to be recovered after more than 12 months	40,027	38,318
	<u>86,591</u>	<u>81,028</u>
Deferred income tax liabilities:		
– to be recovered within 12 months	7,413	7,573
– to be recovered after more than 12 months	43,654	44,330
	<u>51,067</u>	<u>51,903</u>

Movements in deferred income tax assets and liabilities during the six months ended 30 June 2022 and 2023 (without taking into consideration the offsetting of balance within the same tax jurisdiction) are as follows:

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Deferred income tax assets		
At the beginning of the period	81,028	84,490
Recognised in profit or loss (<i>Note 27</i>)	5,563	(1,386)
Transfer to assets classified as held for sale	–	(41)
At the end of the period	<u>86,591</u>	<u>83,063</u>

13. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred income tax assets as at 30 June 2023 and 2022 were mainly related to government grant, tax losses carried forward as well as depreciation and amortisation differences arising from the revaluation results on certain wastewater treatment facilities and right-of-use assets and other relevant non-current assets injected by Kunming Dianchi Investment Co., Ltd.* (昆明滇池投資有限責任公司) (“KDI”) upon the incorporation of the Company.

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Deferred income tax liabilities		
At the beginning of the period	51,903	86,492
Recognised in profit or loss (<i>Note 27</i>)	(836)	(15,452)
Liabilities directly associated with assets classified as held for sale	–	(2,090)
	<u>–</u>	<u>(2,090)</u>
At the end of the period	51,067	68,950
	<u>51,067</u>	<u>68,950</u>

Deferred income tax liabilities were mainly related to fair value adjustment arising from acquisition of subsidiaries in previous years, differences arising from service concession receivables and differences arising from fair value as at 30 June 2023 and 2022.

14. FINANCIAL ASSETS AT AMORTISED COST

	Unaudited	Audited
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Unlisted investments (<i>Note</i>)	300,000	300,000
Loss allowance	(90,000)	(60,000)
	<u>210,000</u>	<u>240,000</u>

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

According to the relevant provisions of the Mutual Trust No. 5 Asset Management Agreement and the supplemental agreement for extension of term of the asset management agreement, the asset management plan purchased by the Company has expired on 10 April 2022 (the “Maturity Date”). The asset manager allocated the assets under the asset management plan to the Company in their current status as at the Maturity Date in accordance with the terms of the Mutual Trust No. 5 Asset Management Agreement. On 29 October 2022, the Company and KADI entered into a settlement agreement and mutually agreed that certain assets held by the subsidiaries of KADI and KADI were pledged to the Company for the outstanding principal and interest.

The carrying value of financial assets at amortised cost was RMB300,000,000 and stated at the amortised cost less impairment loss. As at 30 June 2023, provision of loss amounted to RMB90,000,000 was made.

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

15. TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trade receivables (Note (a)):		
– Third parties	214,346	202,799
– Related parties (Note 31(d)(i))	238,198	551,514
– Local government	2,938,067	2,200,998
– Loss allowance	<u>(68,061)</u>	<u>(81,712)</u>
Trade receivables – net	<u>3,322,550</u>	<u>2,873,599</u>
Other receivables:		
– Third parties	75,484	99,155
– Related parties (Note 31(d)(i))	669,803	584,390
– Local government	92,273	70,666
– Loss allowance	<u>(38,071)</u>	<u>(23,671)</u>
Other receivables – net	<u>799,489</u>	<u>730,540</u>
Prepayments:		
– Others	77,073	72,204
– Loss allowance	<u>–</u>	<u>(4)</u>
Prepayments – net	<u>77,073</u>	<u>72,200</u>
Trade and other receivables – net	<u><u>4,199,112</u></u>	<u><u>3,676,339</u></u>

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

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Non-current portion:		
Wastewater treatment construction business	109,801	109,121
Other treatment construction business	<u>34,038</u>	<u>–</u>
	<u><u>143,839</u></u>	<u><u>109,121</u></u>

15. TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS (CONTINUED)

Notes:

- (a) Contract assets relating to concession agreements for new wastewater treatment, water supply and other construction services are not yet collectible from the customer until the construction of new wastewater treatment, water supply and other infrastructure or upgrade services are completed. As a result, a contract asset is recognised over the period in which the construction of new wastewater treatment, water supply and other infrastructure or upgrade services are performed to represent the entity's right to consideration for the services transferred to date. The carrying amount of approximately RMB143,839,000 will be reclassified as receivables under concession agreements or intangible assets after completion of construction of new wastewater treatment, water supply and other infrastructure or upgrade services. As the contract assets are not expected to be settled within one year from the end of the Reporting Period, the whole balance is classified as non-current assets.
- (b) Provision for impairment loss of approximately RMB2,935,000 was recognised for contract assets during the period (31 December 2022: Nil).
- (c) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, is as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
– Within one year	2,067,513	1,771,954
– Over one year and within two years	1,084,673	1,041,909
– Over two years	238,425	141,448
	<u>3,390,611</u>	<u>2,955,311</u>

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

16. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	35,566	36,329
Loss allowance	(711)	(727)
	<u>34,855</u>	<u>35,602</u>
Non-current portion:		
Amounts due from customers for construction contracts	670,466	689,505
Loss allowance	(13,410)	(13,790)
	<u>657,056</u>	<u>675,715</u>
	<u>691,911</u>	<u>711,317</u>

17. CASH AND CASH EQUIVALENTS

		Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 <i>RMB'000</i>
Cash and bank balances	(a)	96,942	131,494
Restricted funds	(b)	167,203	181,194

(a) Cash and bank balances are denominated in:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 <i>RMB'000</i>
RMB	256,249	298,892
HKD	246	5,153
USD	7,650	8,643
	264,145	312,688

All deposits at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates at ranged from 0.01% to 2.25% during the six months ended 30 June 2023 (31 December 2022: 0.01% to 2.25%).

(b) As at 30 June 2023, restricted funds included guarantee deposits for notes and guarantee deposits for letters of credit (31 December 2022: including guarantee deposits for construction projects and guarantee deposits for letters of credit).

18. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares <i>(thousands)</i>	Share capital <i>RMB'000</i>
At 1 January 2023 and 30 June 2023 (Unaudited)	1,029,111	1,029,111
At 1 January 2022 and 30 June 2022 (Unaudited)	1,029,111	1,029,111

19. OTHER RESERVES

	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Property revaluation surplus RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2023	1,283,440	326,477	(47,793)	11,145	2,183	1,575,452
Currency translation differences	-	755	-	-	(99)	656
At 30 June 2023 (unaudited)	<u>1,283,440</u>	<u>327,232</u>	<u>(47,793)</u>	<u>11,145</u>	<u>2,084</u>	<u>1,576,108</u>
At 1 January 2022	1,283,440	293,552	(47,793)	11,145	3,232	1,543,576
Currency translation differences	-	-	-	-	2,830	2,830
At 30 June 2022 (unaudited)	<u>1,283,440</u>	<u>293,552</u>	<u>(47,793)</u>	<u>11,145</u>	<u>6,062</u>	<u>1,546,406</u>

20. BORROWINGS

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Non-current:		
Unsecured long-term borrowings	463,198	989,400
Secured long-term borrowings (Note (b))	<u>1,384,141</u>	<u>1,533,293</u>
	<u>1,847,339</u>	<u>2,522,693</u>
Current:		
Unsecured short-term borrowings	1,965,535	2,687,428
Secured short-term borrowings (Note (b))	<u>1,991,124</u>	<u>658,966</u>
	<u>3,956,659</u>	<u>3,346,394</u>
	<u>5,803,998</u>	<u>5,869,087</u>

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

20. BORROWINGS (CONTINUED)

(b) As at 30 June 2023 and 31 December 2022, analysis of the secured borrowings are as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Secured by:		
Corporate guarantee issued by the Company	105,854	721,402
Property, plant and equipment	615,563	841,837
Corporate guarantee issued by related parties	235,000	200,000
Corporate guarantee issued by a shareholder	518,570	174,000
Waste sanitary landfill construction project revenue	145,718	235,000
Sewage treatment revenue	1,064,469	20,020
Pledge of equity of subsidiaries	690,091	–
	<u>3,375,265</u>	<u>2,192,259</u>

(c) The maturity of borrowings is as follows:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
On demand or within 1 year	3,956,659	3,346,394
Between 1 and 2 years	986,403	928,216
Between 2 and 5 years	510,294	1,304,021
Over 5 years	350,642	290,456
	<u>5,803,998</u>	<u>5,869,087</u>

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Weighted average effective interest rates of borrowings	<u>5.33%</u>	<u>4.05%</u>

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

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

The Group's borrowings bear interest at floating rates, except for bank loans in an aggregate principal amount of approximately RMB2,399,923,000 (31 December 2022: approximately RMB2,843,249,000) bearing interest at fixed rates ranging from 2.15% to 6.00% (31 December 2022: ranging from 2.15% to 5.50%) per annum.

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

21. DEFERRED REVENUE

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Government grants related to: – property, plant and equipment	<u>243,617</u>	<u>230,943</u>
	<u>243,617</u>	<u>230,943</u>

The movement of government grants during the six months ended 30 June 2023 and 2022 is set out as follows:

	Unaudited Six months ended 30 June 30 June 2023 RMB'000	30 June 2022 RMB'000
At the beginning of the Reporting Period	230,943	245,267
Additions	17,705	–
Refunds	–	(1,985)
Credit to statement of profit or loss and other comprehensive income (Note 23)	<u>(5,031)</u>	<u>(6,448)</u>
At the end of the Reporting Period	<u>243,617</u>	<u>236,834</u>

22. TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trade payables to third parties	300,748	295,842
Other payables due to:	276,506	172,989
– related parties (Note 31(d)(ii))	10,581	12,104
– local government	779	840
– third parties	265,146	160,045
Notes payable	19,850	20,063
Consideration payable for acquisition of subsidiaries	16,464	16,464
Staff salaries and welfare payables	42,564	42,704
Payables on acquisition of property, plant and equipment due to:	302,365	175,322
– related parties (Note 31(d)(ii))	28,942	28,942
– third parties	273,423	146,380
Payables on acquisition of land use rights from related parties (Note 31(d)(ii))	31,000	31,000
Interest payables	21,622	25,442
Accrued taxes other than income tax	<u>16,484</u>	<u>26,584</u>
Total trade and other payables	<u>1,027,603</u>	<u>806,410</u>

22. TRADE AND OTHER PAYABLE/CONTRACT LIABILITIES (CONTINUED)

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Contract liabilities		
– related parties (<i>Note 31(d)(iii)</i>)	3,184	3,184
– third parties	6,511	3,655
	<u>9,695</u>	<u>6,839</u>

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
– Within one year	162,632	192,094
– Over one year and within two years	41,337	4,651
– Beyond two years	96,779	99,097
	<u>300,748</u>	<u>295,842</u>

23. OTHER INCOME

	Unaudited Six months ended 30 June 2023 RMB'000	2022 RMB'000
Government grants:	6,656	7,029
– relating to property, plant and equipment (<i>Note 21</i>)	5,031	6,448
– relating to tax refund	1,395	203
– Others	230	378
Interest income from cash and cash equivalents	951	2,826
Rental income	3,901	5,933
Others	(183)	4,951
	<u>11,325</u>	<u>20,739</u>

Note:

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

24. OTHER LOSSES

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment – net	806	144
Others	1,091	904
	<u>1,897</u>	<u>1,048</u>

25. EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 9)	100,639	100,426
Utilities, electricity and office expenditures	63,654	79,637
Employee benefit expenses	81,061	87,709
Costs of wastewater and water supply services	58,230	84,899
Cost of construction services	47,135	15,316
Taxes and levies	12,588	16,584
Repair and maintenance costs	4,474	12,709
Commission charge	–	496
Depreciation of right-of-use assets/land use rights (Note 8)	5,428	5,203
Subcontracting costs	–	15,787
Professional expenses	6,803	15,055
Research and development expenses	–	185
Amortisation of intangible assets (Note 11)	13,037	11,330
Fuels expenses	72,984	68,837
Miscellaneous	34,474	56,663
	<u>500,507</u>	<u>570,836</u>
Total cost of sales, selling expenses, administrative expenses and research and development expenses		

26. FINANCE COSTS – NET

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Finance income:		
– Interest income charged to related parties (<i>Note 31(b)(iv)</i>)	19,933	22,409
	<u>19,933</u>	<u>22,409</u>
Finance costs:		
– Interest expenses	(136,098)	(135,671)
– Exchange (losses)/gains – net	(22,910)	(27,036)
– Others	(358)	(420)
	<u>(159,366)</u>	<u>(163,127)</u>
Finance costs – net	<u><u>(139,433)</u></u>	<u><u>(140,718)</u></u>

27. INCOME TAX EXPENSES

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current income tax	40,898	37,448
Deferred income tax (<i>Note 13</i>)	(6,399)	(14,066)
	<u>34,499</u>	<u>23,382</u>
Income tax expenses	<u><u>34,499</u></u>	<u><u>23,382</u></u>

Under the Law of the PRC on Corporate Income Tax (the “CIT Law”) and implementation Regulations of the CIT Law, the tax rate of the PRC enterprises is 25% from 1 January 2008. The income tax rate of 25% is applicable to all the Group’s PRC subsidiaries during the six months ended 30 June 2023 and 2022, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

- (a) China’s west region development policy (the “West Region Development Policy”) is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in the western provinces of China. During the six months ended 30 June 2023 and 2022, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15%.
- (b) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments and are entitled to three years’ exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.
- (c) Certain PRC subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential tax rates enjoyed 10% deduction of CIT.

28. EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
Profit for the period attributable to equity holders of the Company (<i>RMB'000</i>)	165,945	182,826
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (<i>RMB</i>)	<u><u>0.16</u></u>	<u><u>0.18</u></u>

- (b) The diluted earnings per share are the same as the basic earnings per share as there was no dilutive potential share during the six months ended 30 June 2023 and 2022.

29. CASH USED IN OPERATING ACTIVITIES

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>201,423</u>	<u>206,868</u>
Adjustments for:		
– Depreciation of property, plant and equipment (<i>Note 25</i>)	100,639	100,426
– Depreciation of right-of-use assets (<i>Note 25</i>)	5,428	5,203
– Amortisation of intangible assets (<i>Note 25</i>)	13,037	11,330
– Government grants relating to purchase of property, plant and equipment (<i>Note 23</i>)	(5,031)	(6,448)
– Impairment loss on investment in an associate	55	–
– Share of results of associates (<i>Note 12</i>)	–	363
– Gains on disposal of an associate	183	–
– Finance costs – net	116,523	113,262
– Impairment losses on financial assets	30,898	9,997
– Loss on disposal of property, plant and equipment	806	154
– Exchange differences	<u>22,910</u>	<u>(32,911)</u>
	<u><u>486,871</u></u>	<u><u>408,244</u></u>

29. CASH USED IN OPERATING ACTIVITIES (CONTINUED)

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in working capital:		
– Increase in trade and other receivables	(480,924)	(312,901)
– Increase in inventories	(6,560)	(1,701)
– Decrease in amounts due from customers for construction contracts	19,406	36,883
– Decrease in receivables under service concession arrangements	8,203	78,243
– Decrease in deferred revenue relating to research and development activities	–	(1,985)
– Increase/(decrease) in trade and other payables	247,039	(185,267)
– Increase in contract assets	(34,718)	–
– Increase in contract liabilities	2,856	2,292
	<u>242,173</u>	<u>23,808</u>
Cash generated from operations	<u>242,173</u>	<u>23,808</u>

30. COMMITMENTS

(i) Commitments under operating lease

The Group as lessor

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

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	9,311	12,503
One to two years	13,321	12,677
Two to five years	32,919	33,956
Over five years	2,490	12,773
	<u>58,041</u>	<u>71,909</u>

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

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	<u>49,925</u>	<u>499,550</u>

30. COMMITMENTS (CONTINUED)

- (iii) Concession projects and construction projects contracted at the end of the Reporting Period, but not yet incurred are as follows:

	Unaudited	Audited
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Concession projects and construction projects	<u>1,729,799</u>	<u>1,760,522</u>

31. RELATED PARTY TRANSACTIONS

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

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2023 and 2022, and balances arising from related party transactions as at 30 June 2023 and 31 December 2022.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Name and relationship with related parties

Name of related party	Nature of relationship
Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司, “ KDI ”)	Controlling shareholder of the Company
Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, “ Kunming DIG ”)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, “ IDI ”)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xinzhi Investment Development Co., Ltd. (昆明新置投資發展有限公司, “ Xinzhi Investment ”)	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司), “ Xindu Investment ”)	Controlled by Kunming SASAC
Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, “ Kunming Bus ”)	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, “ Kunming CGE ”)	Controlled by Kunming SASAC
Kunming Anju Group Co., Ltd. (昆明市安居集團有限公司, “ Anju Group ”)	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 Agricultural Development Investment Co., Ltd. (昆明農業發展投資有限公司, “ KADI ”)	Controlled by Kunming SASAC
Kunming Municipal Urban Construction Investment & Development Co., Ltd. (昆明市城建投資開發有限責任公司, “ Kunming Construction ”)	Controlled by Kunming SASAC

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

Save as disclosed elsewhere in this announcement, during the six months ended 30 June 2023 and 2022, the Group had the following significant transactions with related parties:

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
KDI	–	3,794
	<u>–</u>	<u>3,794</u>

(ii) *Loans granted to related parties:*

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Xindu Investment	–	250,000
Kunming Construction	–	310,000
Anju Group	80,000	–
	<u>80,000</u>	<u>–</u>
	<u>80,000</u>	<u>560,000</u>

The transactions under finance arrangements between the Group and Anju Group are interest bearing at 8.5% per annum respectively and repayable within one year.

(iii) *Loans repaid from related parties:*

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Kunming Bus	–	300,000
Xindu Investment	–	350,000
Kunming Construction	130,000	–
	<u>130,000</u>	<u>–</u>
	<u>130,000</u>	<u>650,000</u>

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (Continued)

(iv) Interest income from related parties:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Kunming DIG	7,953	–
Xindu Investment	–	11,176
Kunming Bus	–	3,952
KADI	–	5,918
Kunming Construction	11,699	1,363
Anju Group	281	–
	<u>19,933</u>	<u>22,409</u>

(v) Management services provided to related parties:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
KDI	19,065	162,485
Kunming Construction	–	4,258
	<u>19,065</u>	<u>166,743</u>

(vi) Commission charged by related parties:

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Kunming CGE	–	204
Kunming Qingyuan	–	289
	<u>–</u>	<u>493</u>

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and bonuses	476	646
Contributions to pension plans	78	169
Housing fund, medical insurance and other social insurance	65	134
	<u>619</u>	<u>949</u>

(d) Balances with related parties

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

	Unaudited	Audited
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
KADI	6,834	6,834
Kunming DIG	200,265	200,429
Kunming Construction	185,977	322,468
Anju Group	80,204	–
KDI	411,250	582,702
Xindu Investment	23,471	23,471
	<u>908,001</u>	<u>1,135,904</u>

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

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (Continued)

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
<i>Acquisition of property, plant and equipment:</i>		
Xindu Investment	<u>28,942</u>	<u>28,942</u>
<i>Acquisition of land use rights:</i>		
Xindu Investment	<u>31,000</u>	<u>31,000</u>
<i>Others:</i>		
KDI	<u>10,581</u>	<u>12,104</u>
	<u><u>70,523</u></u>	<u><u>72,046</u></u>

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

(iii) Contract liabilities with related parties:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
KDI	<u><u>3,184</u></u>	<u><u>3,184</u></u>

(iv) Financial assets at amortised cost:

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
KADI	<u><u>210,000</u></u>	<u><u>240,000</u></u>

II. MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATING ENVIRONMENT

In the first half of 2023, facing the complicated and challenging international environment as well as the arduous task of domestic reform, development and stabilization, China adhered to the general keynote of seeking progress while maintaining stability, implemented new development concepts in a complete, accurate and comprehensive manner, and fully resumed the normal operation of the economy and society. With effective implementation of macro policies, the national economy as a whole rebounded and improved, facilitating steady progress in high-quality development.

The year of 2023 marks the start of implementing the spirit of the 20th National Congress of the Communist Party of the PRC and is a crucial year for the continuous implementation of the “14th Five-Year Plan”. The report of the 20th National Congress of the Communist Party of the PRC reaffirmed the strategic mission of ecological civilization construction in China in the new era, proposed that it is necessary to further promote the prevention and control of environmental pollution, persist in treating pollution in a precise, scientific and lawful manner, and continue to fight the battle to defend blue sky, clear water and pure land. The 2023 government work report pointed out that China shall strengthen the protection of the ecological environment and promote green and low-carbon development. China shall adhere to the idea that lucid waters and lush mountains are invaluable assets, improve the ecological civilization system, maintain the balance between development and protection, and continuously enhance the sustainable development capability. From top-level design to institutional protection and resource investment, the state and governments at all levels have consolidated the foundation for sustainable and high-quality development of the industry. With the continuous implementation of the requirements for high-quality development, the increasing demand and intensifying competition in the environmental protection industry, a new pattern is gradually taking shape in the environmental protection market.

The Company adheres to the strategic guidance of “unitary domination with diversified development”, focuses on wastewater treatment and develops in various business sectors in upstream and downstream industries such as water supply, wastewater recycling and solid waste treatment and disposal. In 2023, facing a complicated and challenging external environment, the Company focuses on the business philosophy of “seeking progress while maintaining stability”. In particular, the Company improves and strengthens its advantages in water treatment operation and promotes the enhancement of quality and efficiency of the water plants in operation. In addition, it accelerates construction progress of the projects at hand. Our concession business model, technology and project execution capabilities have laid the foundation for stable revenues and steady, sustainable and high-quality development.

1. Overview of Wastewater Treatment Industry

Treating water pollution and protecting the water environment are crucial to the future and development of our country. The Report of the 20th National Congress of the Communist Party of the PRC pointed out the need to coordinate the management of water resources, water environment and water ecology, and to promote the protection and management of the ecology of key rivers, lakes and reservoirs. In May 2023, the relevant ministries and commissions of the PRC jointly issued the Plan for Protection of Water Ecology and Environment in Key Watersheds, which specifies the key points for protection and management of important water bodies, and the key tasks for the management of water resources, water environment, and water ecology. With the continuous and in-depth implementation of relevant national policies such as the “Implementation Plan for Improving Shortcomings and Strengthening Weaknesses of Urban Domestic Wastewater Treatment Facilities”, the “14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resource Utilization” and the “Agricultural and Rural Pollution Control Action Plan (2021-2025)”, the development of the wastewater industry is in a favourable external environment with continuous release of benefits from positive policies to promote the continuous and large-scale development of China’s wastewater treatment market.

Meanwhile, in terms of industry standards, the upgrading of wastewater treatment plants has continuously created development potential for the industry. The total volume of wastewater treatment in China is relatively large, but the quality standard of effluent water falls behind the requirements of national high-quality development. With the constantly improving requirements of the society on the quality of the water environment, there are still a large number of wastewater treatment plants in China that need to be upgraded, which will also bring new development space for the overall technological advancement of China’s wastewater treatment industry.

In addition, the accelerated progress of industrialization and urbanization in China will also continue to expand the coverage of the wastewater treatment services market. The rapid development of urbanization continues to impose higher service requirements on the wastewater treatment industry. With the increasing efforts of energy saving and emission reduction in China, the total number of wastewater treatment plants put into operation will continue to increase, and the incremental and existing numbers of market-oriented operation services will be stabilized at a high level in the long run.

2. Overview of Reclaimed Water Industry

Reclaimed water is known as the second source of water for cities, and recycling of reclaimed water can greatly alleviate the problem of insufficient natural water resources. Reclaimed water utilization is an effective way to actively explore carbon emission reduction and pollution reduction, which is of great significance in saving water resources, protecting water ecosystems, improving the water environment, reducing carbon emissions, promoting regional economic growth and improving the quality of life of the surrounding population.

In July 2023, the Ministry of Water Resources and the National Development and Reform Commission issued the “Guiding Opinions on Strengthening the Allocation and Utilization of Unconventional Water Resources”, which proposed that by 2035, the utilization rate of reclaimed water in water-scarce cities of prefectural level and above shall reach over 25%, and that the mid- and downstream regions of the Yellow River Basin shall strive to achieve the target of 30%, and that the Beijing-Tianjin-Hebei region shall achieve the development target of over 35%. Under the “Guiding Opinions on Promoting the Recycling and Utilization of Wastewater” and its “1+N” policy system, reclaimed water will gradually be incorporated into the urban water supply system, become subject to the unified allocation of water resources, and be gradually promoted in industrial production, municipal utilities, ecological environment and other fields, and the reclaimed water utilization market will gradually unfold in the “14th Five-Year Plan” period.

3. Overview of Municipal Water Supply Industry

Municipal water supply, as the most basic public utility, will continue to see steady growth in demand for water for residential and production use as China’s economic development and urbanization continue. On the other hand, as the turning point of population size approaches and with the implementation of industrial energy-saving, emission-reducing and water-saving measures, the overall demand growth rate of the mature water supply industry has slowed down. The industry’s development is shifting towards addressing shortcomings, improving quality and increasing efficiency.

At present, the development of water supply business is still facing problems such as unbalanced regional development, disparity between urban and rural development, and insufficient pipeline network development to meet the requirements of high-quality social development. In the future, the development of the industry will create development opportunities in the areas of urban and rural water supply and drainage, inter-regional cooperation, pipeline system construction, improvement of operation and management capabilities of water plants, and establishment of smart water plants, thereby facilitating the sustainable development of the industry.

II. DEVELOPMENT STRATEGY AND FUTURE PROSPECTS

Looking ahead to the second half of 2023, the global political and economic situation is expected to remain complicated and uncertain. Domestically, although the economy is recovering, the foundation for sustained development is still fragile, and significant efforts are needed to drive overall improvement in economic performance.

In the future, we will maintain our strategic focus and unwaveringly promote high-quality development. We will focus on quality and efficiency enhancement, strengthen the research and prediction of market conditions, accurately understand the trend of macro-economic policies and economic operation, and persist in professional development, market-oriented operation and lean management. We will focus on the development of our core business, carefully select high-quality projects, promote the “specialized and professional” transformation of our investment areas, and plan and follow up on high-quality capital-saving projects in a targeted manner. At the same time, based on our main business, we will continue to develop our strengths in key technological areas such as in-depth wastewater treatment, sludge recycling, and comprehensive use of reclaimed water, and implement high-quality projects, so as to expand the ecological and environmental protection industry chain. We will also continue to optimize our structure, revitalize existing capacities, and make good use of new capacities, so as to continuously stimulate internal momentum and proactively enhance the Company’s operating efficiency, thereby contributing to increase corporate benefits and contribute to the stable operation of the Company.

III. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO model. For the six months ended 30 June 2023, our TOO projects contributed to 53.8% of our total revenue. Our TOT and BOT projects contributed to 21.8% of our total revenue, and we also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT models, we finance, construct and operate relevant facilities. After the expiration of the relevant concessions, we either obtain new concessions from or transfer the relevant facilities back to the relevant local governments, depending on project types. As at 30 June 2023, we had a total of 48 water plants under concession agreements (including wastewater treatment plants and running water plants), all of which were in operation. Among such 48 water plants in operation, 14 were TOO projects, 21 were TOT projects, 11 were BOT projects and 2 were BOO projects.

Wastewater Treatment Projects

As at 30 June 2023, we had a total of 40 wastewater treatment plants in operation (including 14 in the main city of Kunming and 26 in other areas of China), with a total wastewater treatment capacity of 2.04 million m³ per day. Additionally, our management services facilities have a total designed wastewater treatment capacity of 0.15 million m³ per day. We have been entrusted to operate and manage rural domestic sewage collection and treatment facilities in 887 villages, covering 19 towns. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while provide high quality wastewater treatment services. As at 30 June 2023, 99.4% of our designed wastewater treatment capacity reached the National Class I Category A standard.

Reclaimed Water Business

For our reclaimed water business, as at 30 June 2023, we had 12 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 237,000 m³.

During the Reporting Period, our reclaimed water supply increased significantly, which was mainly due to the increase in reclaimed water supply for water replenishment of rivers in the first half of 2023.

Running Water Business

For our running water business, as at 30 June 2023, we had 8 running water plants in the PRC, including 7 in Yunnan Province and 1 in Hunan Province, all of which were in operation.

During the Reporting Period, the Company's supply of running water amounted to approximately 9.822 million m³, representing an increase from the same period of last year.

IV. FINANCIAL REVIEW

1. Consolidated Results of Operations

For the six months ended 30 June 2022, our revenue amounted to RMB909.1 million, and decreased by 5.1% to RMB862.8 million for the six months ended 30 June 2023; our gross profit for the six months ended 30 June 2022 was RMB392.9 million and increased by 1.9% to RMB400.5 million for the six months ended 30 June 2023. During the Reporting Period, the revenue from wastewater treatment service, reclaimed water supply, running water supply services and other segments accounted for 65.1%, 7.1% and 27.8% of the total revenue respectively.

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

	For the six months ended	
	30 June (Unaudited)	
	2023	2022
	RMB'000	RMB'000
Revenue	862,833	909,091
Cost of sales	<u>(462,325)</u>	<u>(516,153)</u>
Gross profit	400,508	392,938
Selling expenses	(1,038)	(3,788)
Administrative expenses	(37,144)	(50,710)
Research and development expenses	–	(185)
Net impairment losses on financial and contract assets	(30,898)	(9,997)
Other income	11,325	20,739
Other losses	<u>(1,897)</u>	<u>(1,048)</u>
Operating profit	340,856	347,949
Finance income	19,933	22,409
Finance costs	<u>(159,366)</u>	<u>(163,127)</u>
Finance costs – net	<u>(139,433)</u>	<u>(140,718)</u>
Share of results of associates	–	<u>(363)</u>
Profit before tax	201,423	206,868
Income tax expense	<u>(34,499)</u>	<u>(23,382)</u>
Profit for the period	166,924	183,486
Other comprehensive (loss)/income for the period	<u>(99)</u>	<u>2,830</u>
Total comprehensive income for the period	<u>166,825</u>	<u>186,316</u>

(a) Revenue

During the Reporting Period, our revenue amounted to RMB862.8 million, a decrease of RMB46.3 million or 5.1% as compared to RMB909.1 million for the same period last year, primarily because:

Our revenue from wastewater treatment business decreased by RMB25.6 million or 4.4% from RMB587.2 million for the six months ended 30 June 2022 to RMB561.6 million for the six months ended 30 June 2023, the change in the current period was relatively small compared with the same period of last year.

Revenue from our water supply segment increased by RMB2.1 million, or 3.6%, from RMB59.0 million for the six months ended 30 June 2022 to RMB61.1 million for the six months ended 30 June 2023, the change in the current period was relatively small compared with the same period of last year.

Our revenue from other segments decreased by RMB22.8 million or 8.7% from RMB262.9 million for the six months ended 30 June 2022 to RMB240.1 million for the six months ended 30 June 2023, mainly attributable to the decrease in income from entrusted management services.

(b) Cost of sales

During the Reporting Period, our cost of sales amounted to RMB462.3 million, representing a decrease of 10.4% as compared to RMB516.2 million for the same period last year, primarily because:

The cost of sales of our wastewater treatment segment decreased by RMB26.9 million or 8.3% from RMB324.4 million for the six months ended 30 June 2022 to RMB297.5 million for the six months ended 30 June 2023, mainly attributable to the decrease in wastewater operation income, leading to corresponding decrease in costs during the Reporting Period.

The cost of sales for our water supply segment decreased by RMB9.2 million or 31.3% from RMB29.4 million for the six months ended 30 June 2022 to RMB20.2 million for the six months ended 30 June 2023, mainly due to the decrease in construction investment during the Reporting Period.

Cost of sales of our other segments decreased by RMB17.8 million or 11.0% from RMB162.4 million for the six months ended 30 June 2022 to RMB144.6 million for the six months ended 30 June 2023, mainly due to the decrease in entrusted operation projects during the Reporting Period.

(c) Gross margin

During the Reporting Period, our gross margin was 46.4%, representing an increase of 3.2% as compared to 43.2% for the same period last year, primarily due to the increase in gross profit margin of wastewater and water supply segments.

Our gross profit margin for the wastewater treatment segment increased from 44.8% for the six months ended 30 June 2022 to 47.0% for the six months ended 30 June 2023, which was mainly due to the further decrease in operating costs.

Our gross profit margin of water supply segment increased from 50.1% for the six months ended 30 June 2022 to 67.0% for the six months ended 30 June 2023, which was mainly due to the increase in proportion of water supply business with a higher gross profit margin and the decrease in proportion of construction services with a relatively lower gross profit margin during the period.

Our other segments' gross profit margin increased from 38.2% for the six months ended 30 June 2022 to 39.8% for the six months ended 30 June 2023, the change in the current period was relatively small compared with the same period of last year.

(d) Selling expenses

During the Reporting Period, our selling expenses amounted to RMB1.0 million, representing a decrease of RMB2.8 million as compared to RMB3.8 million in the corresponding period of the previous year, mainly due to the decrease in sales handling fee and commission charge during the Reporting Period.

(e) Administrative expenses

During the Reporting Period, our administrative expenses amounted to RMB37.1 million, representing a decrease of RMB13.6 million compared to RMB50.7 million for the same period of the previous year, which was mainly due to the decrease in employee benefit expenses.

(f) Other income

During the Reporting Period, our other income amounted to RMB11.3 million, representing a decrease of RMB9.4 million as compared to RMB20.7 million for the same period of last year, which was mainly due to the decrease in interest income generated from cash and cash equivalent.

(g) Other losses

During the Reporting Period, our other losses amounted to RMB1.9 million, representing an increase of RMB0.9 million as compared to RMB1.0 million for the same period last year.

(h) Operating profit

As a result of the foregoing factors, during the Reporting Period, our operating profit amounted to RMB340.9 million, a decrease of RMB7.0 million or 2.0% as compared to RMB347.9 million for the same period last year. Our operating margin during the Reporting Period was 39.5%.

(i) Finance income

During the Reporting Period, our finance income amounted to approximately RMB19.9 million, representing a decrease of RMB2.5 million as compared to that of approximately RMB22.4 million in the corresponding period of the previous year, which was mainly attributable to a decrease in interest income from entrusted loans for the current period as compared to the corresponding period of the previous year.

(j) Finance costs

During the Reporting Period, our finance costs amounted to approximately RMB159.4 million, representing a decrease of RMB3.7 million as compared to approximately RMB163.1 million in the corresponding period of last year which was mainly due to a decrease in foreign exchange losses, which in turn led to a decrease in finance costs.

(k) Profit before tax

During the Reporting Period, our profit before tax amounted to RMB201.4 million, representing a decrease of RMB5.5 million or 2.7% as compared to RMB206.9 million for the same period last year.

(l) Income tax

During the Reporting Period, our net income tax expense amounted to RMB34.5 million, an increase of RMB11.1 million as compared to RMB23.4 million for the same period last year. The effective tax rate was 17.1%, an increase of 5.8 percentage points as compared with the same period last year.

(m) Total comprehensive income

As a result of the foregoing factors, during the Reporting Period, our total comprehensive income for the period amounted to RMB166.8 million, decreased by 10.5% as compared to RMB186.3 million for the same period last year.

2. Liquidity and Capital Resources

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

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

	For the six months ended	
	30 June (Unaudited)	
	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	104,926	(142,639)
Net cash (used in) investing activities	(51,230)	(66,985)
Net cash (used in) financing activities	(88,907)	(815,331)
Net (decrease) in cash and cash equivalents	(35,211)	(1,024,955)
Foreign exchange gains	659	346
Cash and cash equivalents at beginning of the period	131,494	1,504,346
Cash and cash equivalents at end of the period	96,942	479,737

(a) Net cash generated from/(used in) operating activities

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

During the Reporting Period, our net cash generated from operating activities was RMB104.9 million, representing an increase of RMB247.5 million as compared to net cash used in operating activities of RMB142.6 million in the corresponding period of last year, which was primarily due to the combined changes in cash received from customers for the provision of services and products and cash invested for securing concession projects.

(b) Net cash (used in) investing activities

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

Our net cash (used in) investing activities decreased from RMB67.0 million for the six months ended 30 June 2022 to RMB51.2 million for the six months ended 30 June 2023, mainly due to the decrease in advances to related parties during the Reporting Period.

(c) **Net cash (used in) financing activities**

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

Our net cash (used in) financing activities decreased from RMB815.3 million for the six months ended 30 June 2022 to RMB88.9 million for the six months ended 30 June 2023, mainly due to the change in cash flow from borrowings during the Reporting Period.

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

In order to enhance the efficiency of use of proceeds and reduce finance costs, based on the needs of operation and development of the Company, the Company changed the use of net proceeds from global offering at the Board meetings convened on 5 July 2022 and 1 March 2023 (please refer to the Company's announcements dated 5 July 2022 and 1 March 2023 for details). Based on the changed use and utilisation plan, the net proceeds from the global offering were fully utilized on or before 30 June 2023 in accordance with the changed use (accounting for 100% of the net proceeds from the Initial Public Offering). The use of proceeds is as follows:

Changed use	Percentage of total net proceeds from the Initial Public Offering	Planned use of net proceeds from the Initial Public Offering <i>RMB million</i>	Unused net proceeds from the Initial Public Offering as at 1 January 2023 <i>RMB million</i>	Actual use of net proceeds from the Initial Public Offering from 1 January 2023 to the period ended 30 June 2023 <i>RMB million</i>	Actual use of net proceeds from the Initial Public Offering from the Listing Date to the period ended 30 June 2023 <i>RMB million</i>	Unused net proceeds from the Initial Public Offering <i>RMB million</i>
Investments in BOT/BOO wastewater treatment and running water supply projects	34%	361.72	-	-	361.72	-
To acquire TOT/TOO wastewater treatment plants and running water supply projects	27%	289.70	-	-	289.70	-
Repayment of bank borrowings	25%	271.74	13.27	13.27	271.74	-
To supplement working capital and for general corporate purposes	14%	156.14	4.12	4.12	156.14	-
Total	100%	1,079.30	17.39	17.39	1,079.30	-

During the Reporting Period, the net proceeds from the Initial Public Offering were used according to the changed use as approved by the Board on 1 March 2023. As at 30 June 2023, there was no material change or material delay in the use of proceeds of the Company.

The Company has entered into certain finance lease arrangement for the purpose of enabling the Company to obtain financial resources for its operations while continue using certain assets required for its operations. On 24 December 2021, the Company entered into the finance lease agreement with Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司) (“**Industrial Bank Financial Leasing**”), pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the leased assets from the Company at a purchase price of RMB400 million, and (ii) lease back the leased assets to the Company for a term of five years. On 20 June 2023, the parties entered into the supplemental agreement for the finance lease agreement to adjust and supplement the lease term, interest rate and rental payment arrangement etc. For details, please refer to the announcements of the Company dated 24 December 2021 and 20 June 2023, and the circulars of the Company dated 25 February 2022 and 25 August 2023. In addition, on 24 March 2022, the Company and CCB Financial Leasing Corporation Limited (“**CCB Financial Leasing**”) entered into the transfer agreements and the lease agreements, under which CCB Financial Leasing agreed to (i) purchase certain leased assets from the Company for a transfer price not exceeding RMB100,000,000 and lease back such leased assets to the Company for a term of four years, and (ii) purchase certain leased assets from the Company for a transfer price not exceeding RMB100,000,000 and lease back such leased assets to the Company for a term of five years. For details, please refer to the announcement of the Company dated 24 March 2022.

3. Working Capital

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	47,997	44,128
Inventories	28,450	21,890
Amounts due from customers for construction contracts	34,855	35,602
Financial assets at amortised cost	210,000	240,000
Trade and other receivables	4,199,112	3,676,339
Cash and bank balances	96,942	131,494
Restricted funds	167,203	181,194
	<u>4,784,559</u>	<u>4,330,647</u>
Current liabilities		
Trade and other payables	1,027,603	806,410
Tax payables	107,378	79,431
Borrowings	3,956,659	3,346,394
Contract liabilities	9,695	6,839
	<u>5,101,335</u>	<u>4,239,074</u>
Net current (liabilities)/assets	<u>(316,776)</u>	<u>91,573</u>

As at 30 June 2023 and 31 December 2022, we recorded net current liabilities of RMB316.8 million and net current assets of RMB91.6 million respectively. The decrease in net current assets was mainly due to the increase in borrowings and trade and other payables.

(a) *Receivables under service concession arrangements*

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

Our receivables under service concession arrangements that were classified as current assets amounted to RMB48.0 million as at 30 June 2023, representing an increase of 8.8% from RMB44.1 million as at 31 December 2022, mainly due to an increase in the amount to be recovered in the coming year as per the progress of contract collection.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB2,534.3 million as at 30 June 2023, representing a decrease of 0.5% from RMB2,546.4 million as at 31 December 2022.

(b) *Inventories*

Our total inventory increased from RMB21.9 million as at 31 December 2022 to RMB28.5 million as at 30 June 2023, representing an increase of RMB6.6 million or 30.1%, primarily due to an increase in inventory of coal of Hongyu Thermal Power.

For the six months ended 30 June 2023, our inventory turnover days were 9.8 days, an increase of 4.0 days as compared to the year ended 31 December 2022. The calculation for inventory turnover days was based on the average annual inventory divided by the sales cost recognised during the relevant period and multiplied by 180 days.

(c) *Amounts due from customers for construction contracts*

As at 30 June 2023, our amounts due from customers for construction contracts were approximately RMB691.9 million, decreased by RMB19.4 million as compared to RMB711.3 million as at 31 December 2022, which was mainly due to recovery of certain payment during the Reporting Period.

(d) **Trade and other receivables**

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties, related parties and local governments; and (iii) prepayments. Our trade receivables are amounts due from customers for sales of goods and services provided in the ordinary course of business, including services performed for TOO and TOT projects and performed during the operation period of BOT projects. Our other receivables primarily consist of loans granted to and interest receivable from related parties, and VAT refund yet to be received. Our prepayments primarily consist of prepaid construction costs and electricity.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Trade receivables:		
– Third parties	214,346	202,799
– Related parties	238,198	551,514
– Local government	2,938,067	2,200,998
– Loss allowance	(68,061)	(81,712)
	<u>3,322,550</u>	<u>2,873,599</u>
Trade receivables – net	<u>3,322,550</u>	<u>2,873,599</u>
Other receivables:		
– Third parties	75,484	99,155
– Related parties	669,803	584,390
– Local government	92,273	70,666
– Loss allowance	(38,071)	(23,671)
	<u>799,489</u>	<u>730,540</u>
Other receivables – net	<u>799,489</u>	<u>730,540</u>
Prepayments:		
– Others	77,073	72,204
– Loss allowance	–	(4)
	<u>77,073</u>	<u>72,200</u>
Prepayments – net	<u>77,073</u>	<u>72,200</u>
Trade and other receivables – net	<u>4,199,112</u>	<u>3,676,339</u>

As at 30 June 2023, our net trade and other receivables was approximately RMB4,199.1 million, increased by RMB522.8 million or 14.2% as compared to approximately RMB3,676.3 million as at 31 December 2022, primarily due to the increase in the provision of services and products and certain payment yet to be recovered during the Reporting Period.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	2,067,513	1,771,954
– Over one year and within two years	1,084,673	1,041,909
– Over two years	238,425	141,448
	<u>3,390,611</u>	<u>2,955,311</u>

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	<i>Days</i>	<i>Days</i>
Trade receivables turnover days ⁽¹⁾	646.3	404.9
Trade and other receivables turnover days ⁽²⁾	821.5	579.5

Notes:

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade receivables is used for the six months ended 30 June 2023 and the year ended 31 December 2022.
- (2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade and other receivables is used for the six months ended 30 June 2023 and the year ended 31 December 2022.

4. Trade and Other Payables

Our trade and other payables primarily consist of trade payables, other payables, staff salaries and welfare payables, advance from customers, payables on acquisition of property, plant and equipment, payables on acquisition of land use rights from related parties, interest payables, and accrued taxes other than income tax.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Trade payables	300,748	295,842
Other payables	276,506	172,989
Note payables	19,850	20,063
Consideration unpaid for acquisition of subsidiaries	16,464	16,464
Staff salaries and welfare payables	42,564	42,704
Payables on acquisition of property, plant and equipment	302,365	175,322
Payables on acquisition of land use rights from related parties	31,000	31,000
Interest payables	21,622	25,442
Accrued taxes other than income tax	16,484	26,584
	<u>1,027,603</u>	<u>806,410</u>

As at 30 June 2023, our trade and other payables amounted to approximately RMB1,027.6 million, representing an increase of RMB221.2 million or 27.4% as compared to approximately RMB806.4 million as at 31 December 2022, which was mainly due to the increase in payables on acquisition of property, plant and equipment.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	162,632	192,094
– Over one year and within two years	41,337	4,651
– Over two years	96,779	99,097
	<u>300,748</u>	<u>295,842</u>

As at 30 June 2023 and 31 December 2022, all trade and other payables of our Group were non-interest bearing, and their fair values approximate to their carrying amounts due to their short maturities.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	<i>Days</i>	<i>Days</i>
Trade payables turnover days ⁽¹⁾	191.6	132.4
Trade and other payables turnover days ⁽²⁾	357.0	224.3

Notes:

- (1) Calculated as the average trade payables for the relevant period divided by the expenditure for procurement for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade payables is used for the six months ended 30 June 2023 and the year ended 31 December 2022.
- (2) Calculated as the average trade and other payables for the relevant period divided by the selling cost for the relevant period, and multiplied by 365 days (for six months, multiplied by 180 days). The arithmetic mean of the opening and closing balances of trade and other payables is used for the six months ended 30 June 2023 and the year ended 31 December 2022.

Our Directors confirmed that up to 30 June 2023, there was no material default in payment of trade payables.

5. Indebtedness

(a) Borrowings

All of our borrowings are denominated in RMB, HKD or USD and some are secured by our property, plant and equipment and some are secured by the sewage treatment revenue of the Group. The following table shows our borrowings as at the dates indicated:

	Unaudited As at 30 June 2023 RMB'000	Audited As at 31 December 2022 RMB'000
Non-current:		
Unsecured long-term borrowings	463,198	989,400
Secured long-term borrowings	1,384,141	1,533,293
Total non-current borrowings	<u>1,847,339</u>	<u>2,522,693</u>
Current:		
Unsecured short-term borrowings	1,965,535	2,687,428
Secured short-term borrowings	1,991,124	658,966
Total current borrowings	<u>3,956,659</u>	<u>3,346,394</u>
Total borrowings	<u>5,803,998</u>	<u>5,869,087</u>
Average effective interest rates	<u>5.33%</u>	<u>4.05%</u>

As at 31 December 2022 and 30 June 2023, we had total borrowings of RMB5,869.1 million and RMB5,804.0 million, respectively. Among our debt, borrowings of RMB841.8 million and RMB615.6 million as at 31 December 2022 and 30 June 2023 were secured by property, plant and equipment, and borrowings of RMB1,064.5 million and RMB20.0 million were guaranteed by the sewage treatment revenue of the Group.

As at 30 June 2023, we were not in breach of any covenants in our loan agreements that materially affected our business operation. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As at 30 June 2023, we had not received any requests for early repayment of the principal or interest under any of our loan agreements.

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
On demand or within 1 year	3,956,659	3,346,394
Between 1 and 2 years	986,403	928,216
Between 2 and 5 years	510,294	1,304,021
Over 5 years	350,642	290,456
	<u>5,803,998</u>	<u>5,869,087</u>

As at 31 December 2022 and 30 June 2023, our net gearing ratios (calculated as net debt divided by total capital at the end of the period. In particular, net debt is calculated as total interest-bearing liabilities less cash and cash equivalents at the end of the period; total capital is calculated as total equity plus net debt) were 54.4% and 53.4%, respectively, representing a decrease of 1.0 percentage points from that as at 31 December 2022, primarily due to the change in net debt and cash and cash equivalent during the current period.

Except as disclosed above, as at 30 June 2023, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

(b) Commitments

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

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Property, plant and equipment	<u>49,925</u>	<u>499,550</u>

(c) Concession projects and construction projects contracted at the end of the reporting period, but not yet incurred are as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2023	2022
	RMB'000	RMB'000
Concession projects and construction projects	<u>1,729,799</u>	<u>1,760,522</u>

(d) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB30.6 million for the six months ended 30 June 2023, representing a decrease of 82.6% as compared to RMB175.5 million for the six months ended 30 June 2022.

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Wastewater treatment	10,943	148,190
Water supply	18,873	1,413
Others	805	25,930
	<u>30,621</u>	<u>175,533</u>

Based on our current business plan, we expect to incur capital expenditure amounting to RMB70.6 million for the year ending 31 December 2023. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

6. Employees and Remuneration Policies

As at 30 June 2023, we had 1,438 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as at 30 June 2023:

Function	Number
Management and Administration	189
Finance	55
Research and Development	65
Quality Monitoring	240
Marketing	17
Operations	829
Construction and Maintenance	43
	<hr/>
Total	<u><u>1,438</u></u>

We recruit our employees from the open market. The compensation for our employees includes basic wages, performance pay, bonuses and other staff benefits. Our employee benefits and labor expenses from January to June in 2022 amounted to RMB87.7 million, and our employee benefits and labor expenses from January to June in 2023 amounted to RMB81.1 million, representing a decrease of approximately RMB6.6 million or 7.5% as compared to the same period of 2022.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we adopted a new employee internship management mechanism, a blended learning mechanism that combines centralised training and online training, on-the-job training, exchanges and rotations, apprenticeship learning and other talented team building systems that coexist in various talent business training methods. With the core talent circulation training mechanism and other methods that take “production, learning, research and use”, we take multiple measures to improve the comprehensive quality and professional ability of employees to ensure talents for the Company’s business development. At the same time, we own Kunming Dianshui Vocational Skills Training School Company Limited (昆明滇水職業技能培訓學校有限公司) to provide more training for our employees.

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

7. Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liability.

8. Material Investment and Acquisition

As at 30 June 2023, the Group did not have any material investment and acquisition (including material acquisitions of subsidiaries, associates and joint ventures). During the Reporting Period, the Company did not enter into any new material investment and acquisition agreements and the projects under the original investment and acquisition agreements had been actively carried forward.

9. Material Disposal of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material disposal of subsidiaries, associates and joint ventures.

10. Material Litigation

As at 30 June 2023, the Group was not involved in any material or potential material litigation.

11. Exchange Rate Volatility Risk and Any Related Hedging

The Group still retains some foreign currency funds and borrowings, and the foreign currency funds are mainly Hong Kong dollars and US dollars. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. Therefore, for certain foreign currency borrowings, we have entered into agreements with domestic financial institutions whereby the domestic financial institutions converted the foreign currency borrowings into RMB borrowings for lending to the Group. The Group is only required to pay the principal and interest of the RMB borrowings at a fixed interest rate to the domestic financial institutions at the time of each principal and interest payment, which reduces the risk of fluctuations in foreign exchange rates.

12. Loans to Certain Entities

On 9 June 2022, the Company entered into an entrusted loan contract with Kunming Construction and Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社) (“**Panlong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Panlong District Rural Credit Cooperative to provide a loan of RMB310 million to Kunming Construction with an annual interest rate of 8.5% which shall become due on 8 June 2023. Kunming Dianchi Investment provided a full and joint liability guarantee for the entrusted loan transaction under the entrusted loan contract. On 9 June 2023, the parties entered into an extension agreement for the entrusted loan contract dated 9 June 2022 to extend the term of RMB180 million of the principal amount thereunder to 8 June 2024. For details, please refer to the announcements of the Company dated 9 June 2022, 9 June 2023 and 12 June 2023.

On 24 October 2022, the Company entered into the entrusted loan contract with Kunming DIG and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) (“**Chenggong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a loan of RMB200 million to Kunming DIG with an annual interest rate of 8.5% which shall become due on 24 September 2023. For details, please refer to the announcement of the Company dated 24 October 2022.

On 16 June 2023, the Company entered into the entrusted loan contract with Anju Group and Jinma Branch of Kunming Guandu Rural Cooperative Bank* (昆明官渡農村合作銀行金馬支行) (“**Jinma Branch of Guandu Rural Cooperative Bank**”), pursuant to which the Company entrusted Jinma Branch of Guandu Rural Cooperative Bank to provide a RMB80 million loan to Anju Group with an annual interest rate of 8.5% and a term commencing on 16 June 2023 and ending on 16 June 2024. For details, please refer to the announcement of the Company dated 16 June 2023.

As far as the Company is aware, Kunming Construction, Kunming DIG and Anju Group are all controlled or held by Kunming SASAC, and Kunming DIG holds approximately 15.58% of the shares of Kunming Construction. Save for the above, Kunming Construction and Kunming DIG are not related to each other, which are also not connected persons as defined under the Listing Rules.

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company understands that good corporate governance is conducive to healthy, high-quality and sustainable development of the Company and enhances the comprehensive competitiveness of the Company. The Board has the responsibility to lead and oversee the Company and is responsible for the strategic planning, business development, compliance governance, culture promotion, environmental, social and governance management, supervision and other matters of the Company. The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the Company's 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 (the "**Corporate Governance Code**") as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the Corporate Governance Code and has set up a series of corporate governance policies. The Directors believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code except for provision B.2.2.

Under code provision B.2.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As at the end of the Reporting Period, the term of office of the first session of the Board and the board of supervisors of the Company ("**Supervisors**") had expired for three years, however, the nomination of relevant candidates had not yet been completed. At the same time, the Board, taking into consideration of the continuity of the work of the Board and the board of Supervisors, did not re-elect any Director in a timely manner at the expiration of his/her term of office in accordance with the relevant provisions in the articles of association of the Company, and the original Directors shall still be expected to perform the duties of Directors in accordance with laws, administrative rules, departmental rules, as well as the articles of association of the Company before the re-elected Directors assume their duties. Therefore, the Board considers that deviations from provision B.2.2 of the Corporate Governance Code will not have a significant impact on the Group's operation as a whole and the Company will complete the relevant work as soon as possible.

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

IV. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES DEALINGS BY THE DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct for its Directors, Supervisors and relevant employees (has the same meaning ascribed to it under the Corporate Governance Code) in respect of their dealings in the Company’s securities. After making specific enquiries to all the Directors and Supervisors, the Directors and Supervisors confirmed that they had strictly complied with the required standard as set out in the Model Code during the Reporting Period.

V. PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2023.

VI. SHARE SCHEME AND ISSUANCE OF EQUITY SECURITIES

As at 30 June 2023, the Company or any of its subsidiaries had no share option schemes or share award schemes. During the Reporting Period, there was also no issuance of equity securities (including securities convertible into equity securities) for cash.

VII. AUDIT COMMITTEE

The Audit Committee of the Company consists of three independent non-executive Directors, namely Ms. Wang Dongfang, Ms. Zheng Dongyu and Mr. Ong King Keung, and has the responsibilities to review the financial information of the Company, review and supervise the Company’s financial reporting process, financial control, internal control and risk management systems, to supervise the Company’s internal audit system and perform corporate governance duties, and to oversee the audit process and to recommend the engagement or replacement of external auditors. The Audit Committee is also responsible for the communications between the internal and the external auditors and performing other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2023 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VIII. 2023 INTERIM DIVIDEND

In view of the economic environment and the future development plan of the Company, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

IX. PUBLICATION OF THE INTERIM REPORT

The interim report for the six months ended 30 June 2023 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdewt.com).

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

Kunming, the PRC, 25 August 2023

As at the date of this announcement, the Board comprises Mr. Zeng Feng and Mr. Chen Changyong, as executive Directors; Mr. Xu Jingdong, Mr. Zhou Jianbo and Mr. Zhang Yang, as non-executive Directors; and Ms. Wang Dongfang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

* *For identification purpose only*