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Kimou Environmental Holding Limited

金茂源環保控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6805)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue	433,025	318,209
Profit from operations	84,920	73,443
Profit attributable to equity shareholders of the Company	36,857	48,237
Basic earnings per share (<i>RMB</i>)	0.03	0.04
Diluted earnings per share (<i>RMB</i>)	0.03	0.04
Operating profit margin	19.6%	23.1%
Net profit margin	7.2%	11.8%
	At	At
	30 June	31 December
	2021	2020
Total assets	3,281,621	2,993,669
Net assets	1,199,002	1,165,285

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kimou Environmental Holding Limited (the “**Company**” or “**Kimou**”, together with its subsidiaries, the “**Group**”) hereby announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2021 (the “**Period under Review**”), together with the comparative figures for the corresponding period in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 — unaudited

		Six months ended 30 June	
	Note	2021	2020
		RMB'000	RMB'000
Revenue	3	433,025	318,209
Depreciation and amortisation	6(c)	(97,448)	(83,791)
Cost of inventories	6(c)	(135,500)	(76,767)
Staff costs	6(b)	(45,244)	(28,723)
Utility costs		(12,084)	(7,889)
Other expenses		(61,729)	(53,197)
Other revenue		4,597	5,804
Other net loss		(697)	(203)
Profit from operations		84,920	73,443
Finance costs	6(a)	(40,462)	(27,663)
Profit before taxation	6	44,458	45,780
Income tax	7	(13,463)	(8,083)
Profit for the period		30,995	37,697
Attributable to:			
Equity shareholders of the Company		36,857	48,237
Non-controlling interests		(5,862)	(10,540)
Profit for the period		30,995	37,697
Earnings per share (RMB)			
Basic and diluted	8	0.03	0.04

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2021 — unaudited

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	30,995	37,697
Other comprehensive income for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of entities not using Renminbi (“ RMB ”) as functional currency	(18)	(198)
Total comprehensive income for the period	30,977	37,499
Attributable to:		
Equity shareholders of the Company	36,839	48,039
Non-controlling interests	(5,862)	(10,540)
Total comprehensive income for the period	30,977	37,499

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 — unaudited

		At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Investment property	9	905,812	841,382
Property, plant and equipment	10	1,459,442	1,201,695
Construction in progress		166,357	363,246
Right-of-use assets	11	313,977	272,855
Intangible assets		3,017	3,263
Other receivables	12	24,755	4,813
Deferred tax assets		47,656	39,565
Other financial assets		4,850	5,740
		<hr/>	<hr/>
Total non-current assets		2,925,866	2,732,559
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Current assets			
Inventories		5,511	6,037
Trade and other receivables	12	197,610	181,850
Non-current assets held for sale		450	450
Cash and cash equivalents		152,184	72,773
		<hr/>	<hr/>
Total current assets		355,755	261,110
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Current liabilities			
Trade and other payables	13	380,072	483,109
Contract liabilities		10,122	9,148
Bank loans and other borrowings	14	451,478	384,680
Lease liabilities		686	695
Current taxation		16,458	15,920
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Total current liabilities		858,816	893,552
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Net current liabilities		(503,061)	(632,442)
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Total assets less current liabilities		2,422,805	2,100,117
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		At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Non-current liabilities			
Bank loans and other borrowings	14	1,122,727	864,317
Lease liabilities		329	590
Deferred income		90,626	65,288
Deferred tax liabilities		10,121	4,637
		<hr/>	<hr/>
Total non-current liabilities		1,223,803	934,832
		<hr/>	<hr/>
NET ASSETS		1,199,002	1,165,285
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital		98,377	98,377
Reserves		921,127	884,288
		<hr/>	<hr/>
Total equity attributable to equity shareholders		1,019,504	982,665
Non-controlling interests		179,498	182,620
		<hr/>	<hr/>
TOTAL EQUITY		1,199,002	1,165,285
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NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issue on 27 August 2021.

The interim financial report comprises the Kimou Environmental Holding Limited (the “**Company**”) and its subsidiaries (together referred to as the “**Group**”).

At 30 June 2021, the Group’s current liabilities exceeded its current assets by RMB503,061,000. The directors of the Company have confirmed that, based on future projection of the Group’s cash flows from operations and the anticipated ability of the Group to renew or rollover its banking and other financing sources to finance its continuing operations and its planned and/or committed capital expenditure for the next twelve months from the end of the reporting period of this interim financial report, the management believes that the Group has adequate resources to continue to operate as a going concern throughout the next twelve months and that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group’s ability to continue as a going concern.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendment to HKFRS 16, *COVID-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Rental and facilities usage: this segment conducts industrial park property development and management business.
- Wastewater treatment and utilities: this segment operates electroplating wastewater treatment plants and provides services of utilities.
- Sales of goods and ancillary business: this segment includes sales of raw materials and provision of other related environmental services to customers.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major service lines is as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
— Environmental protection technical service and management service	112,271	98,331
— Wastewater treatment and utilities	165,948	118,482
— Sales of goods and ancillary business	107,470	61,108
	<u>385,689</u>	<u>277,921</u>
Revenue from other sources		
Gross rentals from investment property	47,336	40,288
	<u>433,025</u>	<u>318,209</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 3(b) and 3(d).

(b) Information about profit or loss

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Rental and facilities usage		Wastewater treatment and utilities		Sales of goods and ancillary business		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	<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>	<i>RMB'000</i>
For the six months ended 30 June								
Disaggregated by timing of revenue recognition								
Point in time	–	–	165,948	118,482	107,470	61,108	273,418	179,590
Over time	159,607	138,619	–	–	–	–	159,607	138,619
Revenue from external customers	159,607	138,619	165,948	118,482	107,470	61,108	433,025	318,209
Inter-segment revenue	1,216	1,216	–	–	9,057	5,307	10,273	6,523
Reportable segment revenue	<u>160,823</u>	<u>139,835</u>	<u>165,948</u>	<u>118,482</u>	<u>116,527</u>	<u>66,415</u>	<u>443,298</u>	<u>324,732</u>
Reportable segment profit (adjusted EBITDA)	<u>121,908</u>	<u>113,436</u>	<u>55,293</u>	<u>40,718</u>	<u>12,985</u>	<u>11,049</u>	<u>190,186</u>	<u>165,203</u>
Depreciation and amortisation	<u>(87,614)</u>	<u>(78,220)</u>	<u>(9,078)</u>	<u>(4,994)</u>	<u>(756)</u>	<u>(577)</u>	<u>(97,448)</u>	<u>(83,791)</u>

The measure used for reporting segment profit is “adjusted EBITDA”, i.e. “adjusted earnings before finance costs, interest income, taxes, depreciation and amortisation”. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administration costs.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021	2020
	RMB’000	RMB’000
Reportable segment profit derived from the Group’s external customers	190,186	165,203
Depreciation and amortisation	(97,448)	(83,791)
Finance costs	(40,462)	(27,663)
Interest income	371	207
Unallocated head office and corporate expenses	(8,189)	(8,176)
Consolidated profit before taxation	44,458	45,780

(d) Geographic information

Analysis of the Group’s revenue by geographical market has not been presented as substantially all of the Group’s revenue and assets are generated and located in the People’s Republic of China (“**the PRC**”).

4. SEASONALITY OF OPERATIONS

Wastewater treatment and utilities and sales of goods and ancillary business of the Group is subject to seasonal factors. Demand for wastewater treatment and utilities and sales of goods and ancillary services is usually less in long holidays of Chinese New Year and National Day than the rest of the year. Any reduction in consumption volume of services during these low seasons may have an adverse impact on revenue.

For the twelve months ended 30 June 2021, the Group reported revenue of RMB839,540,000 (twelve months ended 30 June 2020: RMB676,564,000).

5. OTHER REVENUE

	Six months ended 30 June	
	2021	2020
	RMB’000	RMB’000
Interest income	371	207
Government grants		
— Unconditional subsidies	515	2,149
— Conditional subsidies	3,457	3,388
Other income	254	60
Total	4,597	5,804

Government grants represent various forms of incentives and subsidies granted to the Group by the local government authorities in the PRC.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest on bank loans and other borrowings	48,091	31,972
Interest on lease liabilities	36	26
Less: interest expense capitalised into properties under development	(7,665)	(4,335)
	<u>40,462</u>	<u>27,663</u>

The borrowing costs have been capitalised at a rate of 6.88% during the six months ended 30 June 2021 (six months ended 30 June 2020: 6.84%).

(b) Staff costs (including directors' emoluments)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Salaries, wages and other benefits	41,378	28,252
Retirement scheme contributions	3,866	471
	<u>45,244</u>	<u>28,723</u>

The Group has no other material obligations for payments of pension benefits beyond the contributions above.

(c) Other items

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation and amortisation		
— Property, plant and equipment	67,133	58,026
— Investment property	26,304	21,705
— Right-of-use assets	3,697	3,486
— Intangible assets	314	574
	<u>97,448</u>	<u>83,791</u>
Cost of inventories (i)	135,500	76,767
Research and development expenses	<u>4,151</u>	<u>4,627</u>

(i) Cost of inventories mainly represented raw materials consumed during the provision of electroplating wastewater treatment services and sold to customers.

7. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax — PRC income tax		
Provision for the period	16,070	14,152
Deferred tax		
Origination and reversal of temporary differences	(2,607)	(6,069)
	13,463	8,083

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. For the six months ended 30 June 2021, subsidiaries in Hong Kong did not have any assessable profits (six months ended 30 June 2020: nil).
- (iii) The statutory income tax rate for the PRC subsidiaries is 25% unless otherwise specified below (six months ended 30 June 2020: 25%).

Huizhou Jinmaoyuan Environmental Technology Co., Ltd. (“**Huizhou Jinmaoyuan**”) was approved as a High and New Technology Enterprise in November 2018, which entitled it to the preferential income tax rate of 15% from November 2018 to November 2021.

Tianjin Bingang Electroplating Enterprises Management Co., Ltd. (“**Tianjin Bingang**”) was approved as a High and New Technology Enterprise in November 2019, which entitled it to the preferential income tax rate of 15% from November 2019 to November 2022.

According to the Corporate Income Tax Law and its implementation rules, non-PRC-resident enterprises are levied withholding tax at 10% on dividend from their PRC-resident enterprises for earnings accumulated since 1 January 2008. For the six months ended 30 June 2021, the Group has recognised RMB6,409,000 (six months ended 30 June 2020: nil) withholding tax on distribution of dividend from a PRC subsidiary to a Hong Kong subsidiary.

The Group has not recognised deferred tax assets of RMB1,744,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB214,000), in respect of cumulative tax losses of certain subsidiaries located in Hong Kong and the PRC.

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB36,857,000 (six months ended 30 June 2020: RMB48,237,000) and the weighted average number of 1,120,000,000 ordinary shares (six months ended 30 June 2020: 1,120,000,000 shares) in issue during the interim period.

(b) Diluted earnings per share

During the six months ended 30 June 2021 and 2020, there were no dilutive potential ordinary shares issued. Therefore, diluted earnings per share were the same as the basic earnings per share.

9. INVESTMENT PROPERTY

The Group's investment property are stated at cost less accumulated depreciation.

As at 30 June 2021, the fair value of the Group's investment property was approximately RMB1,752,980,000 (31 December 2020: RMB1,653,200,000). The fair value are determined by the directors of the Company with reference to mainly the valuation performed, using the income capitalisation approach with reference to the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period, and the sum of average unit market rent at the capitalisation rate after the existing lease period, by an independent qualified professional valuer.

Certain investment property with carrying value of RMB823,154,000 were pledged to secure the Group's bank loans (note 14(ii)) as at 30 June 2021 (31 December 2020: RMB804,669,000).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment with a cost of RMB324,884,000 (six months ended 30 June 2020: RMB199,864,000).

Certain property, plant and equipment with carrying value of RMB739,624,000 were pledged to secure the Group's bank loans and other borrowings (note 14(ii)) as at 30 June 2021 (31 December 2020: RMB601,803,000).

11. RIGHT-OF-USE ASSETS

The Group's land-use rights on leasehold land are located in the PRC. Amortisation is recognised in profit or loss on a straight-line basis over the respective periods of the land-use rights, which are 42 years to 50 years. At 30 June 2021, the remaining period of the land-use rights ranges from 34 to 50 years (31 December 2020: 35 to 49 years).

Certain land-use rights with carrying value of RMB249,199,000 were pledged to secure the Group's bank loans and other borrowings (note 14(ii)) as at 30 June 2021 (31 December 2020: RMB190,973,000).

12. TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current		
Within 1 month	89,615	88,600
1 to 3 months	9,483	7,201
4 to 6 months	3,356	1,565
Over 6 months	1,122	717
	<hr/>	<hr/>
Trade debtors net of allowance for doubtful debts	103,576	98,083
Deductible input value-added tax	84,362	76,540
Prepayments and other receivables	9,672	7,227
	<hr/>	<hr/>
	197,610	181,850
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Non-current		
Prepayments for purchase of property, plant and equipment	8,086	4,535
Deposits for acquisition of land-use rights, constructions and borrowings	16,669	278
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	24,755	4,813
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Total	<u>222,365</u>	<u>186,663</u>

All of the trade and other receivables, apart from those classified as non-current portion, are expected to be recovered or recognised as expense within one year. Trade debtors are due within 15 to 60 days from the date of billing.

13. TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 1 month	47,309	40,328
1 to 3 months	16,356	10,467
4 to 6 months	3,021	4,066
Over 6 months	691	321
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Trade creditors	67,377	55,182
Deposits due to customers	166,372	152,014
Payables for equipment and construction	121,677	244,962
Interest payable	2,054	2,031
Payroll payable	11,109	18,648
Amounts due to related parties	–	97
Other payables to third parties	11,483	10,175
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Total	<u>380,072</u>	<u>483,109</u>

Deposits due to customers represented the rental and facilities usage deposits, which might be repayable to customers after more than one year. All of the other trade payables, other payables, accruals and amounts due to related parties are expected to be settled within one year or are repayable on demand.

The credit period granted by the suppliers is 30 to 60 days.

14. BANK LOANS AND OTHER BORROWINGS

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Secured bank loans	1,530,138	1,226,497
Secured other borrowings	44,067	22,500
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Total	<u>1,574,205</u>	<u>1,248,997</u>

As at 30 June 2021, the bank loans and other borrowings were repayable as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year or on demand	451,478	384,680
After 1 year but within 2 years	109,019	214,261
After 2 years but within 5 years	807,283	518,098
After 5 years	206,425	131,958
Sub-total	1,122,727	864,317
Total	1,574,205	1,248,997

- (i) As at 30 June 2021, bank loans amounted to RMB1,234,144,000 (31 December 2020: RMB1,082,810,000) were floating-interest rate loans with interest rates ranged from 6.25% to 6.86% (31 December 2020: 5.85% to 6.86%). Bank loans and other borrowings amounted to RMB340,061,000 (31 December 2020: RMB166,187,000) were fixed-interest rate borrowings with interest rates of 5.80% to 8.00% (31 December 2020: 5.22% to 6.65%).
- (ii) Secured bank loans and other borrowings as at 30 June 2021 and 31 December 2020 were secured by certain of the Group's charge rights of rental income and property, plant and equipment (note 10), investment property (note 9) and right-of-use assets (note 11).
- (iii) As at 30 June 2021, bank loans amounted to RMB60,000,000 (31 December 2020: RMB65,000,000) were guaranteed by Mr. Zhang Lianghong and Tianjin Wanheshun Technology Co., Group Ltd., which holds 49% of equity interest of Tianjin Bingang.
- (iv) As at 30 June 2021, bank loans amounted to RMB1,367,648,000 (31 December 2020: RMB1,044,110,000) were guaranteed by Mr. Zhang Lianghong, Mr. Zhang Haiming, Mr. Lee Yuk Kong and Mr. Huang Shaobo, each an ultimate individual shareholder of the Company.
- (v) As at 30 June 2021, bank loans amounted to RMB58,490,000 (31 December 2020: nil) were guaranteed by Mr. Zhang Lianghong.
- (vi) Bank loans and other borrowings amounted to RMB1,574,205,000 as at 30 June 2021 (31 December 2020: RMB1,248,997,000) are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. In addition, pursuant to the terms of the bank loan agreements, certain subsidiaries are not allowed to distribute profit and/or to obtain other external financing prior to the lenders' approval. As at 30 June 2021, none of the covenants relating to drawn down facilities had been breached (31 December 2020: nil).

15. DIVIDENDS

No dividends have been declared or paid by the Company for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

16. COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report are as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Contracted for	421,172	172,671
Authorised but not contracted for — Sichuan Qingshen Project	<u>1,847,772</u>	<u>2,000,000</u>
	<u><u>2,268,944</u></u>	<u><u>2,172,671</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Following the stabilization of the COVID-19 pandemic and the major changes in the global political and economic landscape, the PRC government put forward a strategy to “accelerate the new development pattern which internal circulation plays the leading role while both internal and external circulation will be mutually reinforcing” (「加快形成以國內大循環為主體，國內國際雙循環相互促進的新發展格局」) (the “**Dual Circulation Strategy**”). The implementation of the Dual Circulation Strategy will help China optimize its industrial structure and supply chain structure and revitalize its production capacity through supply-side structural reforms and factor market reforms. However, China economy has been facing profound changes in the internal and external environment as well as complex and severe situation, and there are many uncertainties that constrain the implementation of the Dual Circulation Strategy. On one hand, with rising tide of de-globalization, Sino-US friction has escalated and spread from the economic and trade level to various other levels, and the tension of the international trade environment has also increased. On the other hand, domestic economic downturn triggered by the impact of the COVID-19 pandemic is still in recovery. Despite a relatively strong rebound and recovery momentum, there are still many uncertainties, which have further affected the tenants of the Group’s electroplating industrial parks and the Group’s revenue.

BUSINESS REVIEW

The Company and its subsidiaries develop and operate large-scale industrial parks in the PRC which are specifically designed for the electroplating industry. The shares of the Company have been successfully listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 16 July 2019. During the Period under Review, the Group’s revenue was approximately RMB433.0 million, representing an increase of approximately RMB114.8 million from that of approximately RMB318.2 million for the six months ended 30 June 2020 and the profit attributable to the equity shareholders of the Company was approximately RMB36.9 million, representing a decrease of approximately RMB11.3 million from that of approximately RMB48.2 million for the six months ended 30 June 2020. For the Period under Review, the decrease in profit attributable to the equity shareholders of the Company was mainly due to the combined effect of (i) the increase in cost, including depreciation and amortisation expenses incurred as a result of the addition of investment properties and the opening of the Group’s new electroplating industrial park, namely Huazhong Surface Treatment Circular Economy Industrial Park, in Jingzhou, Hubei Province, the PRC; (ii) the increase in the finance costs; and (iii) the increase in the withholding tax on distribution of dividend by a subsidiary of the Company in the PRC to a subsidiary of the Company in Hong Kong.

THE ELECTROPLATING INDUSTRIAL PARKS

The Group currently operates three electroplating industrial parks which are strategically located in Guangdong Province (“**Guangdong Huizhou Park**”), Tianjin (“**Tianjin Bingang Park**”) and Jingzhou (“**Hubei Jingzhou Park**”) in order to enjoy convenient transportation network and to have close proximity to its customers where most of the PRC electroplating enterprises are located.

Total leasable area and occupancy rate

Set out below is the total leasable area and occupancy rate of the Group's three electroplating industrial parks:

	As at 30 June						
	2021				2020		
	Guangdong Huizhou Park	Tianjin Bingang Park	Hubei Jingzhou Park	Total	Guangdong Huizhou Park	Tianjin Bingang Park	Total
Total leasable area (<i>sq.m.</i>) ^(Note)	400,000	260,000	72,000	732,000	347,000	260,000	607,000
Total leased area (<i>sq.m.</i>) ^(Note)	400,000	204,000	17,000	621,000	347,000	181,000	528,000
Occupancy rate	100.0%	78.5%	23.6%	84.8%	100.0%	69.6%	87.0%

Note: Rounded to the nearest thousand square metres ("sq.m.").

The Group offers factory premises in standard floor areas in which the tenants can choose to lease single or multiple floors according to their operational needs. As at 30 June 2021, the total leasable area of Guangdong Huizhou Park, Tianjin Bingang Park and Hubei Jingzhou Park were approximately 400,000 sq.m., 260,000 sq.m. and 72,000 sq.m. respectively while their occupancy rates were 100.0%, 78.5% and 23.6% respectively. Phase I of Hubei Jingzhou Park commenced its leasing in the first quarter of 2021.

Wastewater treatment capabilities

Set out below is the wastewater treatment capabilities of the Group's three electroplating industrial parks:

	Six months ended 30 June						
	2021				2020		
	Guangdong Huizhou Park	Tianjin Bingang Park	Hubei Jingzhou Park	Total	Guangdong Huizhou Park	Tianjin Bingang Park	Total
Fresh water used (<i>tonnes</i>) ^(Note)	1,261,000	283,000	1,300	1,545,300	976,000	196,000	1,172,000
Daily wastewater treatment handling capacity (<i>tonnes</i>) ^(Note)	10,000	6,000	2,500	18,500	10,000	6,000	16,000
Annualised average daily wastewater treatment handling volume (<i>tonnes</i>)	6,929	1,555	7	8,491	5,363	1,077	6,440
Annualised average daily utilization rate of wastewater treatment capacity	69.3%	25.9%	0.3%	45.9%	53.6%	18.0%	40.3%

Note: Rounded to the nearest thousand (hundred for Hubei Jingzhou Park).

The factory premises of the three electroplating industrial parks have pre-installed conduits which direct the electroplating wastewater generated by the park's tenants to the Group's centralised wastewater treatment facilities. The Group also built the systems for (i) recycling the treated wastewater back to the tenants for reuse; and (ii) discharging the rest of the treated wastewater through channels. These facilities are of core importance to the daily operations of the tenants.

As at 30 June 2021, the total daily wastewater treatment capability of the Group reached approximately 18,500 tonnes. The annualised average daily wastewater treatment handling volume was approximately 8,491 tonnes and annualised average daily utilisation rate of wastewater treatment capacity was approximately 45.9%. The total average daily wastewater treatment capability of the newly opened Hubei Jingzhou Park was 7 tonnes and the annualised average daily utilisation rate of wastewater treatment capacity was 0.3%, which was attributed to the fact that target of leased area was not reached and some tenants were not yet in full operation during renovation period.

RESEARCH AND DEVELOPMENT

To keep enhancing the effectiveness of wastewater treatment process and reuse rate is the long term objective and the social responsibility of the Group. With our experienced and knowledgeable research and development team and the cooperation with Tsinghua Shenzhen International Graduate School, the Group has been gradually transforming itself into an integrated wastewater treatment service provider. As at 30 June 2021, the Group had obtained 60 registered patents and 28 patent applications were in the progress of registration.

SALES AND MARKETING

The Group conducts marketing and promotion activities and builds customers relationship through participation in domestic exhibitions and seminars. For the six months ended 30 June 2021, the Group has participated in five exhibitions and seven seminars.

OUTLOOK

The PRC government has put forth a new development pattern, namely the Dual Circulation Strategy. In this strategy, domestic economic cycle (or internal circulation) plays the leading role while international economic cycle (or external circulation) remains as its extension and supplement, and both internal and external circulation will be mutually reinforcing. In the Fifth Plenary Session of the 19th Central Committee of the Communist Party of the PRC, it was proposed that China would “achieve sustained and healthy economic development with obvious improvement in quality and efficiency” during the session for laying down the major economic and social development targets for the next five years (the “**14th Five-Year Plan**”). One of the main themes of the 14th Five-Year Plan is to continue reducing emissions of pollutants and improving ecological environment, in order to make ecological security shields more solid, and greatly improve social living environment. Recycling the treated wastewater for reuse are essential for improving the ecological environment and, as one of the active participants of wastewater treatment in the electroplating industry, the Group will continue to put its efforts to attain the achievement of a high degree of water recycle and reuse to continue to increase revenue.

Increase the number of our electroplating industrial parks

In order to cope with the Group's business expansion and to capture future opportunities, as disclosed in the announcements of the Company dated 17 May, 10 June and 30 July 2021, the Group has successfully won the tender of the land use rights of 3 land parcels with a total site area of 404,909 sq.m., and commenced the construction of the first phase of the factory buildings and the first phase of the wastewater treatment plant, which marked the commencement of the construction of the Group's fourth electroplating industrial park (located in Qingshen County, Sichuan, referred to as Sichuan Qingshen Park).

The wastewater treatment capabilities of the electroplating industrial parks

The land construction work for additional wastewater treatment facilities in Tianjin Bingang Park has been completed in the first half of 2020. However, by considering the present lower amount of fresh water consumption by the tenants in Tianjin Bingang Park and the expected weakening demand for renting factory premises in Tianjin in the short to mid-term as industrialists recalibrate their expansion plans and space requirements, the management considered temporarily suspending the acquisition and installation of additional wastewater equipments in Tianjin Bingang Park.

During the Period under Review, the planned daily maximum wastewater treatment capacity of Sichuan Qingshen Park under construction was 20,000 tonnes. Upon completion of construction and operation of phase I of the wastewater facilities of Sichuan Qingshen Park, the daily wastewater treatment capacity will be increased by 5,000 tonnes.

Meanwhile, the Group has applied to the relevant government authorities to increase the maximum amount of wastewater that can be treated in the Guangdong Huizhou Park from 10,000 tonnes to 15,000 tonnes per day. As at the date of this announcement, the local government authorities are still considering the Group's application.

The GFA available for leasing

The Group is minded to fully utilise the existing land resources available to increase the gross floor area ("GFA") available for leasing and to increase the number of tenants that can be accommodated in Guangdong Huizhou Park. The Group plans to construct additional factory buildings in Guangdong Huizhou Park in two phases. The first phase of the project involves the construction of four factory buildings with an aggregate GFA of approximately 48,000 sq.m. with cost of approximately RMB88.8 million, in which the construction of two factory buildings with an aggregate GFA of approximately 15,400 sq.m. has been completed in December 2020 and the construction of the remaining two factory buildings with an aggregate GFA of approximately 32,600 sq.m. has been completed in the first quarter of 2021. The second phase of the project involves the construction of four factory buildings with an aggregate GFA of approximately 65,000 sq.m. with an estimated cost of approximately RMB111.2 million, in which the construction of two factory buildings with an aggregate GFA of approximately 32,500 sq.m. with an estimated cost of approximately RMB56.0 million has already commenced in June 2020 and one of the two factory buildings has been completed in June 2021 and the other of the two factory buildings is estimated to be completed in the third quarter of 2021. The construction of the remaining two factory buildings of the second phase with an aggregate GFA of 32,500 sq.m. with an estimated cost of approximately RMB56.0 million has commenced in the first quarter of 2021 and it is estimated to be completed by the end of 2021.

The second phase of Hubei Jingzhou Park has already commenced in the first quarter of 2021 in which six factory buildings with an aggregate GFA of 71,000 sq.m. would be constructed at an estimated cost of approximately RMB161.0 million and it is estimated to be completed in the second half of 2022 and will further increase the Group's leaseable GFA.

During the Period under Review, the planned maximum leaseable GFA of Sichuan Qingshen Park under construction is 676,000 sq.m. and the first phase of factory building is estimated to be completed by 30 June 2022, which will increase the Group's leaseable GFA by 134,000 sq.m. upon completion of construction of the first phase and commencement of operation.

RESULTS OF OPERATION

The Group's business mainly involves the provision of factory premises and centralised wastewater treatment services to the tenants at Guangdong Huizhou Park, Tianjin Bingang Park and Hubei Jingzhou Park. The Group's main business can be categorised into three business segments, namely, (1) Rental and facilities usage; (2) Wastewater treatment and utilities; and (3) Sales of goods and ancillary business.

Revenue

During the Period under Review, the Group's revenue was approximately RMB433.0 million, representing an increase of approximately 36.1% from the corresponding period in 2020, mainly attributable to the increase in revenue of the three business segments of the Group.

For the six months ended 30 June								
Revenue by segment	2021				2020			Change in total %
	Guangdong Huizhou Park RMB'000	Tianjin Bingang Park RMB'000	Hubei Jingzhou Park RMB'000	Total RMB'000	Guangdong Huizhou Park RMB'000	Tianjin Bingang Park RMB'000	Total RMB'000	
Rental and facilities usage								
Rental of factory premises	32,107	14,147	1,082	47,336	28,641	11,647	40,288	17.5%
Property management fee	6,586	2,264	258	9,108	4,997	1,956	6,953	31.0%
Environmental protection technical service fee	62,830	39,010	1,323	103,163	57,535	33,843	91,378	12.9%
Sub-total	<u>101,523</u>	<u>55,421</u>	<u>2,663</u>	<u>159,607</u>	<u>91,173</u>	<u>47,446</u>	<u>138,619</u>	<u>15.1%</u>
Wastewater treatment and utilities								
Wastewater treatment fee	64,140	19,427	81	83,648	47,149	12,352	59,501	40.6%
Steam charge	30,868	18,442	54	49,364	23,306	11,660	34,966	41.2%
Utility systems maintenance fee	23,413	9,467	56	32,936	17,460	6,555	24,015	37.1%
Sub-total	<u>118,421</u>	<u>47,336</u>	<u>191</u>	<u>165,948</u>	<u>87,915</u>	<u>30,567</u>	<u>118,482</u>	<u>40.1%</u>
Sales of goods and ancillary business								
Sales of chemicals	87,010	4,032	–	91,042	49,064	120	49,184	85.1%
Other income	14,036	1,916	476	16,428	10,645	1,279	11,924	37.8%
Sub-total	<u>101,046</u>	<u>5,948</u>	<u>476</u>	<u>107,470</u>	<u>59,709</u>	<u>1,399</u>	<u>61,108</u>	<u>75.9%</u>
Total	<u>320,990</u>	<u>108,705</u>	<u>3,330</u>	<u>433,025</u>	<u>238,797</u>	<u>79,412</u>	<u>318,209</u>	<u>36.1%</u>

Revenue from rental and facilities usage service

The revenue from rental and facilities usage service increased by approximately RMB21.0 million or 15.1% from approximately RMB138.6 million for the six months ended 30 June 2020 to approximately RMB159.6 million for the Period under Review. The increase was primarily attributable to (i) increase in total average daily leased area; and (ii) annual increment of rental fee and environmental protection technical service fee pursuant to the respective agreements with tenants.

Revenue from wastewater treatment and utilities

Income from this business segment comprises of wastewater treatment fee, steam charge and utility systems maintenance fee, which are chargeable on our tenants based on the actual volume of fresh water, steam, and utility consumed, respectively.

(i) Wastewater treatment fee

Wastewater treatment fee increased by approximately RMB24.1 million or 40.6% from approximately RMB59.5 million for the six months ended 30 June 2020 to approximately RMB83.6 million for the Period under Review. The increase was primarily attributable to the combined effects of the increase in volume of fresh water used due to the increase in leased areas during the Period under Review and the decrease in volume of fresh water used by the tenants for the corresponding period in 2020 as a result of the outbreak of COVID-19 in the first quarter in 2020.

(ii) Steam charge

Steam charge increased by approximately RMB14.4 million or 41.2% from approximately RM35.0 million for the six months ended 30 June 2020 to approximately RMB49.4 million for the Period under Review. The increase was primarily attributable to the combined effects of the increase in the volume of the steam consumed due to the increase in leased areas during the Period under Review and the decrease in volume of steam consumed by the tenants for the corresponding period in 2020 as a result of the outbreak of COVID-19 in the first quarter in 2020.

(iii) Utility systems maintenance fee

The Group charges its tenants for using its electricity and water supply systems, based on their consumption volume of those utilities. During the Period under Review, over 99% of the utility systems maintenance fee was derived from utilisation of the electricity system.

The utility systems maintenance fee increased by approximately RMB8.9 million or 37.1% from approximately RMB24.0 million for the six months ended 30 June 2020 to approximately RMB32.9 million for the Period under Review. The increase was primarily attributable to the combined effects of the increase in volume of electricity consumed and water used due to the increase in leased areas during the Period under Review and the decrease in volume of electricity consumed and water used by the tenants for the corresponding period in 2020 as a result of the outbreak of COVID-19 in the first quarter in 2020.

Revenue from sales of goods and ancillary business

Sales of goods and ancillary business is mainly comprised of sales of chemical products which accounted for 84.7% (30 June 2020: 80.5%) of this business segment.

Sales of chemicals increased by approximately RMB41.9 million or 85.1% from approximately RMB49.2 million for the six months ended 30 June 2020 to approximately RMB91.0 million for the Period under Review. The increase was primarily attributable to the combined effects of (i) more orders from the tenants due to improved quality of chemicals and increased leased areas which has resulted in the increase in the number of tenants; and (ii) the increase in unit sale price of the chemicals during the Period under Review.

Operating costs

The Group's operating costs primarily consist of depreciation and amortisation, cost of inventories, staff costs, utility costs and other expenses.

Operating costs increased by approximately RMB101.6 million or 40.6% from approximately RMB250.4 million for the six months ended 30 June 2020 to approximately RMB352.0 million for the Period under Review. The increase in operating cost was primarily attributable to the combined effects of the increase in the Group's revenue and the increase in cost.

Depreciation and amortisation

The Group's depreciation and amortisation increased by approximately RMB13.7 million or 16.3% from approximately RMB83.8 million for the six months ended 30 June 2020 to approximately RMB97.4 million for the Period under Review, following the Group's addition of investment property and property, plant and equipment in the electroplating industrial parks.

Cost of inventories

Cost of inventories mainly consisted of inventories consumed for the operations of the electroplating industrial parks which include materials for wastewater treatment and natural gas for production of steam and chemicals for sale to the tenants.

Cost of inventories increased by approximately RMB58.7 million or 76.5% from approximately RMB76.8 million for the six months ended 30 June 2020 to approximately RMB135.5 million for the Period under Review, primarily attributable to the significant increase in the sales of chemicals to tenants of the electroplating industrial parks, the increase in volume of wastewater treatment as a result of the increase in volume of fresh water used by the tenants and the increase in unit cost of materials for wastewater treatment and natural gas for production of steam.

Staff costs

Staff costs comprised of staff's salaries, bonuses and other benefits as well as Directors' remuneration which amounted to approximately RMB45.2 million for the Period under Review, an increase of 57.5% as compared with approximately RMB28.7 million for the six months ended 30 June 2020. The Group's staff costs increased mainly due to the combined effects of an increase in number of employees, increase of remuneration during the Period under Review as well as the reduction in social insurance by the government due to the COVID-19 pandemic in the corresponding period in 2020.

Utility costs

Utility costs mainly comprised of costs of electricity and water consumed throughout the Group's wastewater treatment processes, production of steam and for other activities such as lighting and gardening inside the electroplating parks. Utility costs increased by approximately RMB4.2 million or 53.2%, from approximately RMB7.9 million for the six months ended 30 June 2020 to approximately RMB12.1 million for the Period under Review. The increase was mainly attributable to the combined effects of the increase in use of electricity and water due to the increase in volume of wastewater treatment resulting from the increase in leased areas and the decrease in volume of wastewater treatment and reduction of unit price of electricity and water by the government for the corresponding period in 2020 due to the outbreak of COVID-19 in first quarter in 2020.

Other expenses

Other expenses primarily consisted of professional service fees, waste treatment expenses, other taxes and surcharges, security charges and others, as set out below:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Professional service fees	4,360	1,964
Waste treatment expenses	13,863	11,988
Other taxes and surcharges	10,040	9,246
Security charges	4,399	3,597
Maintenance and consumables	7,168	8,821
Research and development	4,151	4,627
Consultancy service fee	3,602	1,060
Reception fees	4,357	2,212
Cleaning expenses	2,250	2,092
Travelling expenses	951	463
Office expenses	1,302	749
Landscaping expenses	1,237	908
Advertising and promotion expenses	624	109
Insurance	234	263
Others	3,191	5,098
Total	61,729	53,197

Other expenses increased by approximately RMB8.5 million or 16.0%, from approximately RMB53.2 million for the six months ended 30 June 2020 to approximately RMB61.7 million for the Period under Review, primarily attributable to the increase in waste treatment expenses resulting from the increase in volume of wastewater treatment during the Period under Review and the increase in the reception fees to get more business and the increase in professional and consultancy service fees.

Other revenue

Other revenue primarily consisted of (i) bank interest income, (ii) government grants, and (iii) other income. Other revenue decreased by approximately RMB1.2 million or 20.8%, from approximately RMB5.8 million for the six months ended 30 June 2020 to approximately RMB4.6 million for the Period under Review. Such decrease was mainly due to the decrease in government grants.

Profit from operations and operating profit margin

The Group's profit from operations increased by approximately RMB11.5 million or 15.6%, from approximately RMB73.4 million for the six months ended 30 June 2020 to approximately RMB84.9 million for the Period under Review, which mainly resulted from increase in revenue. The operating profit margin decreased from 23.1% for the six months ended 30 June 2020 to 19.6% for the Period under Review, which mainly resulted from the increase in operating costs as described above.

Finance costs

Finance costs primarily comprised of interest in bank loans. Finance costs increased by approximately RMB12.8 million or 46.3%, from approximately RMB27.7 million for the six months ended 30 June 2020 to approximately RMB40.5 million for the Period under Review. The increase in finance costs was attributable to the increase in balance of average bank loans and other borrowings and the increase in loan interest rate.

Profit before taxation

The Group's profit before taxation decreased by approximately RMB1.3 million from approximately RMB45.8 million for the six months ended 30 June 2020 to approximately RMB44.5 million for the Period under Review, which was primarily attributable to the factors as described above.

Income tax

Income tax increased by approximately RMB5.4 million from approximately RMB8.1 million for the six months ended 30 June 2020 to approximately RMB13.5 million for the Period under Review, which was primarily attributable to the increase in profit from Guangdong Huizhou Park's operations during the Period under Review and the increase in the withholding tax on distribution of dividend by a subsidiary of the Company in the PRC to a subsidiary of the Company in Hong Kong.

Profit attributable to the equity shareholders of the Company

Profit attributable to the equity shareholders of the Company decreased by approximately RMB11.3 million from approximately RMB48.2 million for the six months ended 30 June 2020 to approximately RMB36.9 million for the Period under Review, which was mainly attributable to the factors as described above.

Net current liabilities and sufficiency of working capital

The table below sets out our current assets, current liabilities and net current liabilities as at 30 June 2021.

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current assets	355,755	261,110
Current liabilities	858,816	893,552
Net current liabilities	<u>(503,061)</u>	<u>(632,442)</u>

As at 30 June 2021 and 31 December 2020, the total net current liabilities of the Group amounted to approximately RMB503.1 million and RMB632.4 million, respectively. In light of the Group's current liquidity position, the unutilised banking facilities available to the Group and our projected cash inflows to be generated from operations, the Directors believe that the Group has adequate resources for the Group's present capital requirements and for the next 12 months.

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders of the Company, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-equity ratio (net debt divided by total equity). For this purpose, net debt is defined as the remaining balance of bank loans, other borrowings and lease liabilities less cash and cash equivalents.

The Group's adjusted net debt-to-equity ratio was as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current liabilities:		
Bank loans and other borrowings	451,478	384,680
Lease liabilities	686	695
	<u>452,164</u>	<u>385,375</u>
Non-current liabilities:		
Bank loans and other borrowings	1,122,727	864,317
Lease liabilities	329	590
	<u>1,575,220</u>	<u>1,250,282</u>
Less: Cash and cash equivalents	(152,184)	(72,773)
Net debt	<u>1,423,036</u>	<u>1,177,509</u>
Total equity	<u>1,199,002</u>	<u>1,165,285</u>
Adjusted net debt-to-equity ratio	<u>1.19</u>	<u>1.01</u>

Capital Expenditure

During the Period under Review, the Group funded its capital expenditure with cash generated from operating activities and bank loans. For the six months ended 30 June 2021, the Group's capital expenditure amounted to approximately RMB263.5 million (for the six months ended 30 June 2020: RMB231.1 million), mainly attributable to the expenses on acquisition of investment property, property, plant and equipment, right-of-use assets and other intangible assets.

Pledged assets

As at 30 June 2021, the Group had certain property, plant and equipment and investment property with carrying value of approximately RMB739.6 million and approximately RMB823.2 million, respectively (31 December 2020: approximately RMB601.8 million and approximately RMB804.7 million, respectively); land-use rights with net book value of approximately RMB249.2 million (31 December 2020: approximately RMB191.0 million), which were pledged as collateral security for bank loans and other borrowings with carrying value of approximately RMB1,574.2 million (31 December 2020: approximately RMB1,249.0 million).

Please refer to note 14(iii), (iv) and (v) of the Notes to the unaudited interim financial information of this announcement for particulars of guarantees made by the connected persons of the Company in favour of the Group for securing the Group's liabilities. Such guarantees are conducted on normal commercial terms or better and are not secured by the assets of the Group.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2021 (31 December 2020: nil).

FOREIGN EXCHANGE RISK

Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries mainly carried out transactions in RMB, therefore any appreciation or depreciation of Hong Kong dollar against RMB will affect the Group's financial position and be reflected in the exchange reserve.

INTEREST RATE RISK

The Group's interest rate risk arises primarily from bank loans issued at variable rates that expose the Group to interest rate risk. The Group's management closely monitored the Group's loan portfolio in order to manage the Group's interest rate risk exposure.

CREDIT RISK

The Group's credit risk is mainly attributable to trade receivables. Deposits are received from customers by the Group to reduce potential exposure to credit risk. Further, individual credit evaluations are performed regularly on all customers requiring credit over a certain amount. These evaluations focus on the customers' past payment records, taking into account their financial position and other relevant factors. The Group considers the credit risk arising from trade receivables is limited. As at 30 June 2021, the Group's exposure to credit risk arising from cash and cash equivalents is limited because its counterparties are banks and financial institutions with high credit quality.

LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's Board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Qingshen Jinyuan Environmental Technology Co., Ltd (青神金源環保科技有限公司) (“**Qingshen Jinyuan**”), an indirect wholly-owned subsidiary of the Company, has successfully bid and won the public tender for the land use right of a parcel of land situated at Qingzhu Jiedao, Qingshen County, Sichuan Province, the PRC, with a total site area of approximately 84,220 sq.m. (“**Sichuan Land 3**”), and on 17 May 2021, Qingshen Jinyuan and Qingshen County Branch of Meishan Public Resource Center* (眉山市公共資源中心青神縣分中心) signed the confirmation letter confirming the winning of the tender of the land use right of the Sichuan Land 3. Please refer to the announcement of the Company dated 17 May 2021 for further details.

On 10 June 2021, Qingshen Jinyuan entered into (1) the construction agreements with China-Europe International Construction Engineering Group Co. Ltd (中歐國際建工集團有限公司) for the provision of construction services for factories in Qingshen Economic Development Zone; and (2) the construction agreements with Qingshen Yuxiang Construction Engineering Co., Ltd* (青神羽翔建築工程有限公司) (“**Qingshen Yuxiang**”) and Guangdong Jinjunda Construction Engineering Co., Ltd* (廣東金竣達建設工程有限公司) (“**Guangdong Jinjunda**”) for the provision of construction services for factories in Qingshen Economic Development Zone. Please refer to the announcement of the Company dated 10 June 2021 for further details.

Save as disclosed above, there was no other significant investment, material acquisition and disposal of subsidiaries, associates and joint ventures during the Period under Review.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the Period under Review, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company’s listed securities.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 687 full-time employees (30 June 2020: 535 full-time employees) responsible for management, operation, property management, procurement, testing, maintenance, customer services, research and development, finance and administrative matters. The employee costs (including the Directors’ remuneration) were approximately RMB45.2 million for the Period under Review, which was an increase of approximately 57.5% as compared with approximately RMB28.7 million for the six months ended 30 June 2020. The remuneration for the Directors and senior management members is based on their qualifications, work experience, job duties and position with the Group. The Group has implemented an annual review system to assess the performance of its employees, which forms the basis of the determinations on salary raises, discretionary bonuses and promotion.

The Group has also established various welfare plans including the provision of basic medical insurance, unemployment insurance and other relevant insurance to its employees pursuant to the PRC rules and regulations and the existing policy requirements of the local government. The Group has also made contributions to statutory mandatory provident fund scheme for its employees in Hong Kong.

The Group puts great emphasis on staff training. The Group arranges orientation programs for newly hired staff to familiarize them with the Company's working environment and culture. The Group also regularly provides employees with on-the-job trainings so as to ensure their work performances will meet the Group's strategic goals, operating standards, customer and regulatory requirements.

The Company adopted a share option scheme on 18 June 2019 for the purpose of providing incentives and rewards to eligible directors and employees of the Group. During the period from the date of adoption of the share option scheme and up to the date of this announcement, no share option under the share option scheme was granted.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group's total capital expenditures which have been contracted for but not incurred were approximately RMB421.2 million (as at 30 June 2020: approximately RMB368.6 million) for the development of wastewater treatment facilities and factory premises in the Hubei Jingzhou Park, the development of the factory premises in the Guangdong Huizhou Park and the development of wastewater treatment facilities and factory premises in the Sichuan Qingshen Park. These capital expenditures were mainly financed by internal resources and bank loans and other borrowings.

APPOINTMENT AND REMOVAL AND CHANGES IN INFORMATION OF DIRECTORS

The appointment, resignation and change of information of the directors of the Company from 1 January 2021 to the date of this announcement are as follows: Mr. Li Yinquan resigned as an independent director of Lizhi Inc. (a company listed on the Global Market of the NASDAQ, stock code: LIZI) with effect from 1 July 2021.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 12 March 2021, the Group is in preliminary discussion with an independent third party with respect to a possible disposal of a certain interest in one of the Group's electroplating industrial parks ("**Possible Disposal**"). As at the date of this announcement, certain due diligence work regarding the Possible Disposal has been commenced by the potential purchaser, but no legally binding agreement as regards to the Possible Disposal has been entered into by the parties nor have the parties agreed upon on any concrete terms and conditions in respect of the Possible Disposal.

On 30 July 2021, Sichuan Kimou Environmental Technology Co., Ltd (四川金茂源環保科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into the construction agreement with Qingshen Yuxiang and Guangdong Jinjunda for the provision of construction services for an electroplating wastewater treatment plant in Qingshen Economic Development Zone (青神經濟開發區). Please refer to the announcement of the Company dated 30 July 2021 for further details.

Save as disclosed in this announcement and so far as the Group is aware after having made reasonable enquiries, there were no other significant events affecting the Group which have occurred since 30 June 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted and committed to a code of corporate governance, containing the code provisions set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code (“**Code Provision**”) during the Period under Review and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding its Directors’ securities transactions. The Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period under Review.

AUDIT COMMITTEE

The Board established the audit committee (the “**Audit Committee**”) on 18 June 2019 which comprises three independent non-executive Directors, namely Mr. Li Yinquan, Mr. Kan Chung Nin, Tony *SBS, JP* and Mr. Li Xiaoyan. Mr. Li Yinquan is the chairman of the Audit Committee. None of them is a member of the former or existing auditors of the Company. Details of the terms of reference of the Audit Committee are set out on the Company’s website and the website of the Stock Exchange. The primary duties of the Audit Committee are to review and supervise the Group’s financial report process and internal control and risk management systems, and to formulate or review policies relating to anti-bribery compliances by ensuring regular management review of relevant corporate governance measures and its implementation and to communicate with external auditors on the audit procedures and accounting issues. The Audit Committee has reviewed the interim results of the Group, which has also been reviewed by the Company’s external auditor, KPMG, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagement 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float during the Period under Review as required under the Listing Rules.

APPRECIATION

The Company would like to take this opportunity to thank all of its valued shareholders and various stakeholders for their continuous support. Also, the Company would like to express its appreciation to all the staff for their efforts and commitments to the Group.

On behalf of the Board
Kimou Environmental Holding Limited
Zhang Lianghong
Chairman

Hong Kong, 27 August 2021

As at the date of this announcement, the Board comprises Mr. Zhang Lianghong (Chairman), Mr. Zhu Heping (Chief Executive Officer), Mr. Lee Yuk Kong and Mr. Huang Shaobo as executive Directors, and Mr. Li Xiaoyan, Mr. Li Yinquan and Mr. Kan Chung Nin, Tony SBS, JP as independent non-executive Directors.

* *For identification only.*