

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



2020 INTERIM REPORT

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CORPORATE INFORMATION

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

6805

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Lianghong (*Chairman*)

Mr. Zhu Heping (*Chief Executive Officer*)

Mr. Lee Yuk Kong

Mr. Huang Shaobo

Independent Non-Executive Directors

Mr. Kan Chung Nin, Tony *SBS, JP*

Mr. Li Xiaoyan

Mr. Li Yinquan

AUDIT COMMITTEE

Mr. Li Yinquan (*Chairman*)

Mr. Kan Chung Nin, Tony *SBS, JP*

Mr. Li Xiaoyan

NOMINATION COMMITTEE

Mr. Zhang Lianghong (*Chairman*)

Mr. Kan Chung Nin, Tony *SBS, JP*

Mr. Li Xiaoyan

REMUNERATION COMMITTEE

Mr. Kan Chung Nin, Tony *SBS, JP* (*Chairman*)

Mr. Zhang Lianghong

Mr. Li Xiaoyan

COMPANY SECRETARY

Ms. Yeung Ching Man

AUTHORISED REPRESENTATIVES

Mr. Zhang Lianghong

Mr. Lee Yuk Kong

PRINCIPAL BANKER

Dongguan Rural Commercial Bank

Joint Stock Company Limited

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Guangdong Province

the PRC

REGISTERED OFFICE

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Cayman Islands

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Kimou Environmental Holding Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) 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. For the six months ended 30 June 2020 (the “**Period under Review**”), the Group’s revenue was approximately RMB318.2 million, representing an increase of approximately RMB36.5 million from that of approximately RMB281.7 million for the six months ended 30 June 2019 and the profit attributable to the equity shareholders of the Company was approximately RMB48.2 million, representing an increase of approximately RMB38.5 million from that of approximately RMB9.7 million for the six months ended 30 June 2019.

THE ELECTROPLATING INDUSTRIAL PARKS

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

Total leasable area and occupancy rate

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

	As at 30 June					
	Guangdong Huizhou Park	2020 Tianjin Bingang Park	Total	Guangdong Huizhou Park	2019 Tianjin Bingang Park	Total
Total leasable area (sq.m.) ^(Note)	347,000	260,000	607,000	347,000	256,000	603,000
Total leased area (sq.m.) ^(Note)	347,000	181,000	528,000	347,000	171,000	518,000
Occupancy rate	100.0%	69.6%	87.0%	100.0%	66.8%	85.9%

Note: Rounded to the nearest thousand.

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 2020, the total leasable area of Guangdong Huizhou Park and Tianjin Bingang Park were approximately 347,000 sq.m. and 260,000 sq.m. respectively while their occupancy rate were 100% and approximately 69.6% respectively.

The factory premises, located in Guangdong Huizhou Park at Longhua Road, Longxi Street, Boluo County, Huizhou City, Guangdong Province, and Tianjin Park at No.2 Shuangying Road, Zhongwang Aviation Industrial Park, Zhongwang Town, Jinghai District, Tianjin respectively, are classified as investment properties of the Group and leased out for rental income with an initial period of 4 to 5 years lease term and an option to renew the lease after that date at which time all terms are renegotiated.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Wastewater treatment capabilities

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

	For the six months ended 30 June					
	Guangdong Huizhou Park	2020 Tianjin Bingang Park	Total	Guangdong Huizhou Park	2019 Tianjin Bingang Park	Total
Fresh water used (tonnes) ^(Note)	976,000	196,000	1,172,000	1,125,000	206,000	1,331,000
Daily wastewater treatment handling capacity (tonnes) ^(Note)	10,000	6,000	16,000	10,000	6,000	16,000
Annualised average daily wastewater treatment handling volume (tonnes)	5,363	1,077	6,440	6,181	1,132	7,313
Annualised average daily utilisation rate of wastewater treatment capacity	53.6%	18.0%	40.3%	61.8%	18.9%	45.7%

Note: Rounded to the nearest thousand.

The factory premises of the two 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 fundamental of core importance to the daily operations of the tenants.

As at 30 June 2020, the total daily wastewater treatment capability of the Group reached 16,000 tonnes. The annualised average daily wastewater treatment handling volume was approximately 6,440 tonnes and annualised average daily utilisation rate of wastewater treatment capacity was approximately 40.3%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance lease arrangement

References are made to the announcements of the Company dated 7 June 2020, 9 June 2020 and 30 June 2020 that on 5 June 2020, Tianjin Bingang Electroplating Enterprises Management Co., Ltd. (天津濱港電鍍企業管理有限公司) (“**Tianjin Bingang**”), a company established in the PRC with limited liability owned as to 51% by the Group and 49% by an independent third party, and Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司) (“**Far Eastern**”), a company established in the PRC with limited liability and an independent third party, entered into (1) a sale and purchase agreement pursuant to which Tianjin Bingang agreed to dispose (the “**Disposal**”) and Far Eastern agreed to acquire certain equipment and ancillary facilities (the “**Leased Assets**”) for the provision of wastewater treatment services and the supply of steam and electricity in the industrial park of the Group, for a cash consideration of RMB30,000,000; and (2) a lease agreement pursuant to which Tianjin Bingang agreed to lease back the Leased Assets from Far Eastern for an aggregate rental amount of approximately RMB31,843,700 (inclusive of taxes) for a term of two years upon completion of the Disposal. The Disposal and the subsequent leasing of the Leased Assets after their Disposal is part of a two-step process of a sale and lease back financing arrangement.

RESEARCH AND DEVELOPMENT

Recycling the treated wastewater for reuse is the sustainable way of addressing the long term objective of the Group, the Group keeps on investing in research and development to fulfill the tightening environmental protection standard and improve the Group’s operating efficiency and cost effectiveness. Relying on its technological research and development, the Group has been gradually transforming itself into an integrated wastewater treatment service provider. Through the experience accumulated in the past years, the Group’s research and development team and the cooperation with Tsinghua Shenzhen International Graduate School, the Group is able to further develop its expertise and know-how and leverage such knowledge on to the wastewater treatment services provided to the tenants. As at 30 June 2020, the Group had obtained 48 registered patents and 19 patent applications were in the progress of registration.

OUTLOOK

With the implementation of intensive epidemic prevention and stringent control measures to restrain the contagion risks of the novel coronavirus (“**COVID-19**”), the epidemic in the PRC has been brought under control and the economic and social activities in the PRC have gradually resumed. However, the continuous outbreak of COVID-19 globally, together with the trade tension between the United States and the PRC, may pose challenges to the Group’s operation and financial performance as the consumption of fresh water, steam and utilities by the tenants is expected to decrease accordingly. The Group will closely monitor the upcoming changes in the economic environment so that it may respond in a prudent manner swiftly and aptly.

Sichuan Qingshen Project

As disclosed in the 2019 annual report of the Company, the Group has entered into an agreement with Qingshen Government for the establishment and development of the Sichuan Qingshen Project on 8 November 2019. According to that agreement, the implementation of the Sichuan Qingshen Project will be subject to (i) the obtaining of the environment protection assessment approval; (ii) the completion of preparatory works in relation to the Sichuan Qingshen Project; and (iii) the successful acquisition of the land-use rights of two batches of land located in the industrial development zone. As at the date of this report, the Group has no concrete timing for the development of the Sichuan Qingshen Project and has not incurred significant cost for the Sichuan Qingshen Project.

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.

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 report, 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 ground 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 budgeted cost of approximately RMB82.4 million. The first phase of project has commenced in the fourth quarter of 2019 and its estimated completion date will be by the end of 2020. The second phase of the project involves the construction of four factory buildings with an aggregate GFA of approximately 65,000 sq.m. with budgeted cost of approximately RMB111.2 million, of which the construction of two factory buildings with an aggregate GFA of 32,500 sq.m. with budgeted cost of approximately RMB56.0 million has already commenced in June 2020. The easing of travel restrictions on Hubei Province in April 2020 has also enabled the rapid resumption of the construction work for development of the new electroplating industrial park in Jingzhou, Hubei Province (the "**Hubei Jingzhou Project**"). The completion of the construction project in Guangdong Huizhou Park and the commencement of the operation of the new electroplating industrial park under the Hubei Jingzhou Project are expected to further increase the Group's leasable GFA.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 and Tianjin Bingang 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.

For the Period under Review, the Group's revenue was approximately RMB318.2 million, representing an increase of approximately 13.0% from the corresponding period in 2019 and the profit attributable to the equity shareholders of the Company was approximately RMB48.2 million, representing an increase of approximately RMB38.5 million as compared to that of approximately RMB9.7 million from the corresponding period in 2019.

Revenue

Revenue by segment	For the six months ended 30 June						
	2020			2019			Change in Total %
	Guangdong Huizhou Park RMB'000	Tianjin Bingang 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	28,641	11,647	40,288	27,138	11,266	38,404	4.9%
Property management fee	4,997	1,956	6,953	5,560	1,765	7,325	(5.1%)
Environmental protection technical service fee ^(Note)	57,535	33,843	91,378	49,803	30,369	80,172	14.0%
Sub-total	91,173	47,446	138,619	82,501	43,400	125,901	10.1%
Wastewater treatment and utilities							
Wastewater treatment fee	47,149	12,352	59,501	51,518	12,442	63,960	(7.0%)
Steam charge	23,306	11,660	34,966	24,383	13,148	37,531	(6.8%)
Utility systems maintenance fee	17,460	6,555	24,015	18,843	6,779	25,622	(6.3%)
Sub-total	87,915	30,567	118,482	94,744	32,369	127,113	(6.8%)
Sales of goods and ancillary business							
Sales of chemicals	49,064	120	49,184	21,674	39	21,713	126.5%
Other income	10,645	1,279	11,924	5,254	1,704	6,958	71.4%
Sub-total	59,709	1,399	61,108	26,928	1,743	28,671	113.1%
Total	238,797	79,412	318,209	204,173	77,512	281,685	13.0%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Note: To better describe the nature of usage of our wastewater treatment facilities, the name of the revenue “Facilities usage fee” is changed to “Environmental protection technical service fee”. The business model of this revenue and the fee charged based on the size of the leased area are same as those disclosed in the section head “Business” in the prospectus of the Company dated 29 June 2019 and in the 2019 interim and annual report of the Company.

Revenue from rental and facilities usage service

Rental of factory premises, environmental protection technical service fee and property management fee are charged on its tenants based on the GFA of their leased factory premises.

The revenue from rental and facilities usage service increased by approximately RMB12.7 million or 10.1% from approximately RMB125.9 million for the six months ended 30 June 2019 to approximately RMB138.6 million for the Period under Review. The increase was primarily attributable to (i) increase in average daily leased area and (ii) increment of management service fee and environmental protection technical service fee pursuant to the respective agreements with tenants, and partially offset by the decrease in property management fee as Guangzhou Huizhou Park provided a 50% property management fee reduction for its tenants from May 2020 to July 2020.

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 the tenants based on the actual volume of fresh water, steam, and utility consumed, respectively.

(i) Wastewater treatment fee

Wastewater treatment fee decreased by approximately RMB4.5 million or 7.0% from approximately RMB64.0 million for the six months ended 30 June 2019 to approximately RMB59.5 million for the Period under Review. The decrease was primarily attributable to decrease in the volume of the fresh water used by the tenants due to the outbreak of COVID-19 in the PRC.

(ii) Steam charge

Steam charge decreased by approximately RMB2.5 million or 6.7% from approximately RMB37.5 million for the six months ended 30 June 2019 to approximately RMB35.0 million for the Period under Review. The decrease was primarily attributable to the decrease in volume of steam consumed by the tenants mainly due to the outbreak of COVID-19 in the PRC.

(iii) Utility systems maintenance fee

The Group charges its tenants for using its electricity and water supply systems, based on the consumption volume of those utilities. During the Period under Review, over 99.0% of the utility systems maintenance fee was derived from utilisation of the electricity system. The utility systems maintenance fee decreased by approximately RMB1.6 million or 6.3% from approximately RMB25.6 million for the six months ended 30 June 2019 to approximately RMB24.0 million for the Period under Review. The decrease was primarily attributable to the decrease in volume of electricity consumed by the tenants as a result of the outbreak of COVID-19 in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 80.5% (30 June 2019: 75.7%) of this business segment.

Sales of chemical raw materials increased by approximately RMB27.5 million or 126.5% from approximately RMB21.7 million for the six months ended 30 June 2019 to approximately RMB49.2 million for the Period under Review. In order to obtain a greater bulk purchase discount which could lower the cost of raw materials for its tenants and strictly control the risk of safety hazards, the Group strengthened the centralised procurement system for the tenants which led to a sharp increase in this business segment.

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 RMB12.7 million or 5.3% from approximately RMB237.7 million for the six months ended 30 June 2019 to approximately RMB250.4 million for the Period under Review which was generally in line with the increase in the Group's revenue during the Period under Review.

Depreciation and amortisation

The Group's depreciation and amortisation increased by approximately RMB9.7 million or 13.1% from approximately RMB74.1 million for the six months ended 30 June 2019 to approximately RMB83.8 million for the Period under Review, following the Group's addition of investment properties 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 RMB12.6 million or 19.6% from approximately RMB64.2 million for the six months ended 30 June 2019 to approximately RMB76.8 million for the Period under Review, primarily attributable to the significant increase in the amount of approximately RMB27.5 million for the sales of chemical materials to tenants of the electroplating industrial parks, and was partially offset by the decrease in cost of wastewater treatment materials as a result of the decrease in volume of fresh water used by the tenants and the decrease in unit cost of wastewater materials 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 RMB28.7 million for the Period under Review, an increase of 11.7% as compared with approximately RMB25.7 million for the six months ended 30 June 2019. The Group's staff costs increased mainly due to an increase in number of employees as a result of the Group's expansion in both scope and size.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 decreased by approximately RMB1.9 million or 19.4%, from approximately RMB9.8 million for the six months ended 30 June 2019 to approximately RMB7.9 million for the Period under Review, which was in line with the decrease in wastewater treatment handling volume as a result of the outbreak of COVID-19 in the PRC and the decrease in unit cost of electricity and water.

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:

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Professional service fees	1,964	15,064
Waste treatment expenses	11,988	11,207
Other taxes and surcharges	9,246	8,112
Security charges	3,597	3,681
Maintenance and consumables	8,821	4,590
Research and development	4,627	3,731
Consultancy and service fee	1,060	1,208
Entertainment	2,212	2,050
Cleaning expenses	2,092	1,187
Travelling expenses	463	1,220
Office expenses	749	903
Landscaping expenses	908	583
Advertising and promotion expenses	109	496
Insurance	263	119
Others	5,098	9,797
Total	53,197	63,948

Other expenses decreased by approximately RMB10.7 million or 16.7%, from approximately RMB63.9 million for the six months ended 30 June 2019 to approximately RMB53.2 million for the Period under Review, primarily attributable to the absence of the recognition of listing expenses for the Period under Review (for the six months ended 30 June 2019: RMB13.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Profit from operations and operating profit margin

The Group's profit from operations increased by approximately RMB23.1 million or 45.9%, from approximately RMB50.3 million for the six months ended 30 June 2019 to approximately RMB73.4 million for the Period under Review. The operating profit margin increased from 17.8% for the six months ended 30 June 2019 to 23.1% for the Period under Review, which mainly resulted from (i) the increase in revenue generated from the rental and facilities usage; and (ii) the absence of the recognition of listing expenses for the Period under Review.

Finance costs

Finance costs primarily comprised of interest in bank borrowings. Finance costs decreased by approximately RMB8.2 million or 22.8%, from approximately RMB35.9 million for the six months ended 30 June 2019 to approximately RMB27.7 million for the Period under Review. The Group capitalised a portion of the finance costs which were directly attributable to the construction in progress during the Period under Review.

Profit before taxation

The Group's profit before taxation increased by approximately RMB31.4 million from approximately RMB14.4 million for the six months ended 30 June 2019 to approximately RMB45.8 million for the Period under Review, which was primarily attributable to the factors as described above.

Income tax

Income tax decreased by approximately RMB3.1 million from approximately RMB11.2 million for the six months ended 30 June 2019 to approximately RMB8.1 million for the Period under Review, which was primarily attributable to Guangdong Huizhou Park's operations, which remained profitable during the Period under Review and the absence of the deferred tax on the dividend declared by a subsidiary of the Company in the PRC to its immediate holding company in Hong Kong for the six months ended 30 June 2019.

Profit attributable to the equity shareholders of the Company

Profit attributable to the equity shareholders of the Company increased by approximately RMB38.5 million from approximately RMB9.7 million for the six months ended 30 June 2019 to approximately RMB48.2 million for the Period under Review, which was mainly attributable to the factors as described above.

Property, plant and equipment

Property, plant and equipment represented buildings, plant and equipment, motor vehicles and office equipment and others. The balances as at 30 June 2020 increased by approximately RMB141.8 million as compared with that as 31 December 2019, which was primarily attributable to approximately RMB199.9 million for upgrading and adding wastewater treatment facilities, utilities and ancillary facilities in the electroplating industrial parks and was partially offset by depreciation of approximately RMB58.0 million during the Period under Review.

Construction in Progress

Construction in progress represented factory premises and operational facilities that are under construction inside the electroplating industrial parks. The balances as at 30 June 2020 increased by RMB21.9 million as compared with that as at 31 December 2019. Such increase was primarily attributable to an addition of approximately RMB229.7 million mainly for developing factory premises, upgrading and adding wastewater treatment facilities, utility facilities and ancillary facilities in the electroplating industrial parks which was partially offset by the completed construction transferred to the property, plant and equipment and investment property of approximately RMB207.8 million.

LIQUIDITY AND FINANCIAL RESOURCES

The following table summarises the Group's consolidated statement of cash flows:

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Net cash generated from operating activities	112,773	135,631
Net cash used in investment activities	(171,869)	(61,037)
Net cash generated/(used in) from financing activities	38,339	(96,179)
Net decrease in cash and cash equivalents	(20,757)	(21,585)
Effect of foreign exchange rate changes	568	–

For the Period under Review, the Group had a net cash generated from operating activities of approximately RMB112.8 million. Such amount was primarily derived from the profit before taxation of approximately RMB45.8 million generated during the Period under Review, which was primarily adjusted for:

- (i) depreciation and amortisation of approximately RMB83.8 million;
- (ii) finance costs of approximately RMB27.7 million, and was partially offset by;
- (iii) increase in trade and other receivables of approximately RMB20.3 million;
- (iv) decrease in trade and other payables of approximately RMB9.9 million; and
- (v) income tax paid of approximately RMB11.9 million.

For the Period under Review, the Group had a net cash used in investing activities of approximately RMB171.9 million, which was mainly attributable to:

- (i) payment for purchase of property, plant and equipment and investment property of approximately RMB173.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the Period under Review, the Group had a net cash generated from financing activities of approximately RMB38.3 million, which was mainly attributable to:

- (i) proceeds from bank loans and other borrowings of approximately RMB154.1 million; and
- (ii) net withdrawal of deposits from a bank of approximately RMB10.0 million, and was partially offset by;
- (iii) repayment of bank loans and other borrowings of approximately RMB93.4 million; and
- (iv) payment of interest of approximately RMB32.1 million.

Net current liabilities

The Group's net current liabilities as at 30 June 2020 had increased by approximately RMB54.8 million, from approximately RMB578.8 million as at 31 December 2019 to approximately RMB633.6 million as at 30 June 2020.

As at 30 June 2020, the Group's total current assets amounted to approximately RMB235.8 million, representing a decrease of approximately RMB28.3 million as compared with approximately RMB264.1 million as at 31 December 2019. The decrease was primarily attributable to:

- (i) the decrease in cash and cash equivalents of approximately RMB20.2 million; and
- (ii) the decrease in trade and other receivables of approximately RMB7.6 million.

As at 30 June 2020, the Group's total current liabilities amounted to approximately RMB869.3 million, representing an increase of approximately RMB26.4 million as compared with approximately RMB842.9 million as at 31 December 2019. The increase was primarily attributable to:

- (i) the increase in trade and other payables of approximately of RMB29.2 million, and was partially offset by;
- (ii) the decrease in current portion of bank loans and other borrowings of approximately of RMB2.3 million; and
- (iii) the decrease in contract liabilities of approximately of RMB2.6 million.

Borrowings and gearing ratio

During the Period under Review, the Group's cash and cash equivalents was mainly used in the development of Hubei Jingzhou Project and wastewater treatment facilities of Tianjin Bingang Park. The Group financed its funding requirements mainly through a combination of cash generated from operating activities and borrowings:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 30 June 2020, the total interest-bearing borrowings amounted to RMB964.4 million were due for repayment as follows:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Within one year or on demand	251,229	253,558
After one year but within two years	282,119	233,281
After two years but within five years	395,938	370,492
After five years	35,091	46,374
Total	964,377	903,705

The Group's gearing ratio is approximately 0.9 times as at 30 June 2020 (31 December 2019: 0.8 times). The ratio is calculated based on the total bank loans and other borrowings as of the respective dates divided by the total equity as of the respective dates and multiplied by 100%.

Pledged assets

As at 30 June 2020, the Group had certain property, plant and equipment and investment property with carrying value of approximately RMB483.9 million and RMB632.2 million, respectively (31 December 2019: approximately RMB301.2 million and RMB655.5 million, respectively); land-use rights with net book value of approximately RMB114.3 million (31 December 2019: approximately RMB95.9 million) and no bank deposit (31 December 2019: RMB10.0 million) which were pledged as security for the bank loans and other borrowings with carrying amount of approximately RMB964.4 million (31 December 2019: approximately RMB903.7 million).

Please refer to note 15 of the Notes to the unaudited interim financial report of this report 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 2020 (31 December 2019: nil).

Interim dividend

The Board has not declared any interim dividend for the Period under Review (six months ended 30 June 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL STRUCTURE

As at 30 June 2020, the Group had total equity attributable to equity shareholders of the Company of approximately RMB928.0 million (31 December 2019: approximately RMB879.9 million).

FOREIGN EXCHANGE RISK

Individual member companies of the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency, namely Renminbi, of the operations to which they relate.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Save for those disclosed in the section head “Future Plans and Use of Proceeds” in the prospectus of the Company dated 29 June 2019 and in this report, the Company did not have or engaged in any 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 2020, the Group had 535 full-time employees (30 June 2019: 500 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 RMB28.7 million for the Period under Review, which was an increase of approximately 11.7% as compared with approximately RMB25.7 million for the six months ended 30 June 2019. 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 familiarise 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 report, no share option under the share option scheme was granted.

CAPITAL COMMITMENTS

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

USE OF NET PROCEEDS FROM THE LISTING

On 16 July 2019, the shares of the Company (the "Shares") were first listed on the Main Board of the Stock Exchange (the "Listing") following the completion of the Company's initial public offering. The net proceeds received by the Company from the Listing amounted to approximately HK\$337.0 million (approximately RMB296.7 million) (after deducting underwriting commissions and all related expenses) (the "Net Proceeds"). As at 30 June 2020, the Group had utilised the Net Proceeds as set out in the table below:

Intended use	Net proceeds		Unutilised amount as at 1 January 2020		Utilised amount as at 30 June 2020		Unutilised amount as at 30 June 2020	
	HK\$ in million	RMB in million	HK\$ in million	RMB in million	HK\$ in million	RMB in million	HK\$ in million	RMB in million
Acquisition of land for the Hubei Jingzhou Project and construction of relevant infrastructure	74.1	65.3	-	-	-	-	-	-
Expansion of the current wastewater treatment facilities of Tianjin Bingang Park	124.0	109.2	68.1	60.9	(68.1)	(60.9)	-	-
Fund the construction cost of the two factory buildings in Guangdong Huizhou Park	62.0	54.6	-	-	-	-	-	-
Repayment of short term bank loans	62.0	54.6	-	-	-	-	-	-
General working capital	14.9	13.0	9.9	8.7	(3.4)	(2.8)	6.5	5.9
Total	337.0	296.7	78.0	69.6	(71.5)	(63.7)	6.5	5.9

Up to 30 June 2020, approximately HK\$330.5 million (approximately RMB290.8 million) out of the Net Proceeds had been utilised. The remaining unutilised Net Proceeds had been deposited in licensed banks in the PRC and Hong Kong. The Company intends to apply the Net Proceeds in the manner as stated in the prospectus of the Company dated 29 June 2019. The Directors will constantly evaluate the Group's business objectives and specific needs from time to time. The Company will make further announcement if there are any changes on the use of such proceeds as and when appropriate. The unutilised amount of the Net Proceeds is expected to be utilised in full by the end of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report 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 2020 and up to the date of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Cap.571 of the Laws of Hong Kong) (the "SFO"), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of Shares or underlying Shares held ⁽¹⁾	Approximate percentage of shareholding interest in the Company
Mr. Zhang Lianghong ("Mr. Zhang")	Interest in a controlled corporation ⁽²⁾	478,800,000	42.75%
Mr. Lee Yuk Kong ("Mr. Lee")	Interest in a controlled corporation ⁽³⁾	239,400,000	21.40%
Mr. Huang Shaobo ("Mr. Huang")	Interest in a controlled corporation ⁽⁴⁾	42,000,000	3.75%

Notes:

- (1) All interests stated are long positions.
- (2) Such Shares were registered in the name of Flourish Investment International Limited, a company wholly owned by Mr. Zhang. By virtue of Part XV of the SFO, Mr. Zhang is deemed to be interested in all the Shares held by Flourish Investment International Limited.
- (3) Such Shares were registered in the name of Premier Investment Worldwide Company Limited, a company wholly owned by Mr. Lee. By virtue of Part XV of the SFO, Mr. Lee is deemed to be interested in all the Shares held by Premier Investment Worldwide Company Limited.
- (4) Such Shares were registered in the name of Dakson Assets Management Limited, a company wholly owned by Mr. Huang. By virtue of Part XV of the SFO, Mr. Huang is deemed to be interested in all the Shares held by Dakson Assets Management Limited.

Save as disclosed above, as at 30 June 2020, none of the Directors and/or chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period under Review was the Company or its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executives of the Company or their associates to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, to the best knowledge of the Directors and the senior management of the Company, the table below listed out the persons (other than the Directors or chief executives of the Company), who had interests in the Shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Division 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of Shares or underlying Shares held ⁽¹⁾	Approximate percentage of shareholding interest in the Company
Flourish Investment International Limited ⁽²⁾	Beneficial Owner	478,800,000	42.75%
Premier Investment Worldwide Company Limited ⁽³⁾	Beneficial Owner	239,400,000	21.40%
Deluxe Investment International Company Limited ⁽⁴⁾	Beneficial Owner	79,800,000	7.13%
Mr. Zhang Haiming ⁽⁴⁾	Interest in a controlled corporation	79,800,000	7.13%

Notes:

- (1) All interests stated are long positions.
- (2) Flourish Investment International Limited is a company wholly owned by Mr. Zhang, an executive Director and the chairman of the Board.
- (3) Premier Investment Worldwide Company Limited is a company wholly owned by Mr. Lee, an executive Director.
- (4) Such Shares were registered in the name of Deluxe Investment International Company Limited, a company wholly owned by Mr. Zhang Haiming. By virtue of Part XV of the SFO, Mr. Zhang Haiming is deemed to be interested in all the Shares held by Deluxe Investment International Company Limited.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Save as disclosed above, as at 30 June 2020, the Directors and the senior management of the Company are not aware of any other person who had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would require to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted the share option scheme (the **"Share Option Scheme"**) on 18 June 2019. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the eligible participants had or may have made to our Group. Further details of the rules of the Share Option Scheme are set out in the section headed "Statutory and General Information — D. Other Information — 2. Share Option Scheme" in Appendix V to the prospectus of the Company dated 29 June 2019.

No share option was granted, exercised, expired, cancelled or lapsed since the adoption of the Share Option Scheme and there is no outstanding share option under the Share Option Scheme as at 30 June 2020.

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 Listing Rules. The Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code 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 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.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Since the date of the 2019 annual report of the Company and as at the date of this report, changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

On 11 June 2020, Mr. Li Yinquan, an independent non-executive Director, was appointed as an independent non-executive director of China Everbright Bank Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: 601818).

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

AUDIT COMMITTEE

The Board established the audit committee (the “**Audit Committee**”) on 16 July 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 unaudited condensed consolidated interim financial information of the Group for the Period under Review, 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

Zhang Lianghong

Chairman

28 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	3	318,209	281,685
Depreciation and amortisation	6(c)	(83,791)	(74,055)
Cost of inventories	6(c)	(76,767)	(64,200)
Staff costs	6(b)	(28,723)	(25,719)
Utility costs		(7,889)	(9,810)
Other expenses		(53,197)	(63,948)
Other revenue	5	5,804	4,867
Other net (loss)/income		(203)	1,441
Profit from operations		73,443	50,261
Finance costs	6(a)	(27,663)	(35,870)
Profit before taxation	6	45,780	14,391
Income tax	7	(8,083)	(11,240)
Profit for the period		37,697	3,151
Attributable to:			
Equity shareholders of the Company		48,237	9,654
Non-controlling interests		(10,540)	(6,503)
Profit for the period		37,697	3,151
Earnings per share (RMB)			
Basic and diluted	8	0.04	0.01

The notes on pages 31 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	37,697	3,151
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities not using Renminbi ("RMB") as functional currency	(198)	(1,768)
Total comprehensive income for the period	37,499	1,383
Attributable to:		
Equity shareholders of the Company	48,039	7,886
Non-controlling interests	(10,540)	(6,503)
Total comprehensive income for the period	37,499	1,383

The notes on pages 31 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Investment property	9	708,858	721,200
Property, plant and equipment	10	1,059,139	917,326
Construction in progress		414,662	392,765
Right-of-use assets	11	275,794	279,280
Intangible assets		3,500	4,074
Other receivables	12	14,623	15,788
Deferred tax assets		43,969	37,911
Other financial assets		7,667	8,165
Total non-current assets		2,528,212	2,376,509
Current assets			
Inventories		2,906	3,444
Trade and other receivables	12	149,758	157,314
Cash and cash equivalents	13	83,108	103,297
Total current assets		235,772	264,055
Current liabilities			
Trade and other payables	14	582,065	552,894
Contract liabilities		20,801	23,372
Bank loans and other borrowings	15	251,229	253,558
Lease liabilities		643	728
Current taxation		14,602	12,341
Total current liabilities		869,340	842,893
Net current liabilities		(633,568)	(578,838)
Total assets less current liabilities		1,894,644	1,797,671

The notes on pages 31 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2020 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Bank loans and other borrowings	15	713,148	650,147
Lease liabilities		265	393
Deferred income		63,815	67,203
Deferred tax liabilities		8	19
Total non-current liabilities		777,236	717,762
Net assets			
Capital and reserves			
Share capital		98,377	98,377
Reserves		829,594	781,555
Total equity attributable to equity shareholders		927,971	879,932
Non-controlling interests		189,437	199,977
Total equity		1,117,408	1,079,909

The notes on pages 31 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000		
Balance at 1 January 2019	69	–	19,809	15,132	339	92,009	127,358	205,737	333,095
Changes in equity for the six months ended 30 June 2019:									
Profit for the period	–	–	–	–	–	9,654	9,654	(6,503)	3,151
Other comprehensive income	–	–	–	–	(1,768)	–	(1,768)	–	(1,768)
Total comprehensive income	–	–	–	–	(1,768)	9,654	7,886	(6,503)	1,383
Capital injection	–	–	–	–	–	–	–	7,531	7,531
Cancellation of shares	(69)	–	–	–	–	–	(69)	–	(69)
Shares issued on 7 January 2019 at HK\$0.1 each	29,387	15,728	–	–	–	–	45,115	–	45,115
Shares issued on 21 June 2019 at HK\$0.1 each	44,352	285,294	–	–	–	–	329,646	–	329,646
Balance at 30 June 2019 and 1 July 2019	73,739	301,022	19,809	15,132	(1,429)	101,663	509,936	206,765	716,701
Changes in equity for the six months ended 31 December 2019:									
Profit for the period	–	–	–	–	–	45,492	45,492	(6,788)	38,704
Other comprehensive income	–	–	–	–	5,764	–	5,764	–	5,764
Total comprehensive income	–	–	–	–	5,764	45,492	51,256	(6,788)	44,468
Share issued upon initial public offering ("IPO")	24,638	294,102	–	–	–	–	318,740	–	318,740
Transfer to statutory reserve	–	–	–	17,874	–	(17,874)	–	–	–
Balance at 31 December 2019	98,377	595,124	19,809	33,006	4,335	129,281	879,932	199,977	1,079,909

The notes on pages 31 to 48 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2020 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000		
Balance at 1 January 2020	98,377	595,124	19,809	33,006	4,335	129,281	879,932	199,977	1,079,909
Changes in equity for the six months ended 30 June 2020:									
Profit for the period	-	-	-	-	-	48,237	48,237	(10,540)	37,697
Other comprehensive income	-	-	-	-	(198)	-	(198)	-	(198)
Total comprehensive income	-	-	-	-	(198)	48,237	48,039	(10,540)	37,499
Balance at 30 June 2020	98,377	595,124	19,809	33,006	4,137	177,518	927,971	189,437	1,117,408

The notes on pages 31 to 48 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Operating activities		
Cash generated from operations	124,664	142,237
Income tax paid	(11,891)	(6,606)
Net cash generated from operating activities	112,773	135,631
Investing activities		
Interest received	–	13,143
Payment for purchase of property, plant and equipment, investment property and lease prepayments	(173,217)	(124,327)
Payment for purchase of intangible assets	–	(946)
Proceeds from disposal of property, plant and equipment and right-of-use assets	1,348	42
Advance to third parties	–	(63,015)
Repayment from third parties	–	86,000
Advance to related parties	–	(49,666)
Repayment from related parties	–	27,732
Withdrawal of deposits with a bank with original maturity date over three months	–	50,000
Net cash used in investing activities	(171,869)	(61,037)

The notes on pages 31 to 48 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2020 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Financing activities			
Proceeds from bank loans and other borrowings		154,077	210,000
Repayment of bank loans and other borrowings		(93,405)	(65,610)
Advance from related parties		–	60,777
Repayment to related parties		–	(263,297)
Advance from third parties		–	10,000
Repayment to third parties		–	(10,000)
Capital element of lease rentals paid		(239)	(413)
Interest paid		(32,094)	(35,756)
Capital injection from non-controlling interests		–	7,531
Payment of listing related expenses		–	(9,411)
Withdrawal of deposits from a bank		15,000	–
Payment to a bank as deposits		(5,000)	–
Net cash generated from/(used in) financing activities		38,339	(96,179)
Net decrease in cash and cash equivalents		(20,757)	(21,585)
Cash and cash equivalents at the beginning of the period		103,297	80,733
Effect of foreign exchange rate changes		568	–
Cash and cash equivalents at the end of the period	13	83,108	59,148

The notes on pages 31 to 48 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

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 28 August 2020.

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

At 30 June 2020, the Group’s current liabilities exceeded its current assets by RMB633,568,000. 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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of the 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.

The 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 2019 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. KPMG’s independent review report to the Board of Directors is included on pages 49 to 50.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendment to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRS 16 is discussed below:

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("**COVID-19-related rent concessions**") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

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 presented the following 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 provide 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major service lines		
— Environmental protection technical service and management service	98,331	87,497
— Wastewater treatment and utilities	118,482	127,113
— Sales of goods and ancillary business	61,108	28,671
	277,921	243,281
Revenue from other sources		
Gross rentals from investment properties	40,288	38,404
	318,209	281,685

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 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Information about profit or loss (Continued)

For the six months ended 30 June	Rental and facilities usage		Wastewater treatment and utilities		Sales of goods and ancillary business		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregated by timing of revenue recognition								
Point in time	-	-	118,482	127,113	61,108	28,671	179,590	155,784
Over time	138,619	125,901	-	-	-	-	138,619	125,901
Revenue from external customers	138,619	125,901	118,482	127,113	61,108	28,671	318,209	281,685
Inter-segment revenue	1,216	7,148	-	-	5,307	11,252	6,523	18,400
Reportable segment revenue	139,835	133,049	118,482	127,113	66,415	39,923	324,732	300,085
Reportable segment profit (adjusted EBITDA)	113,436	113,626	40,718	28,184	11,049	5,970	165,203	147,780
Depreciation and amortisation	(78,220)	(71,318)	(4,994)	(2,164)	(577)	(573)	(83,791)	(74,055)

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Reportable segment profit derived from the Group's external customers	165,203	147,780
Depreciation and amortisation	(83,791)	(74,055)
Finance costs	(27,663)	(35,870)
Interest income	207	1,227
Unallocated head office and corporate expenses	(8,176)	(24,691)
Consolidated profit before taxation	45,780	14,391

(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 2020, the Group reported revenue of RMB676,564,000 (twelve months ended 30 June 2019: RMB554,014,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 OTHER REVENUE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest income	207	1,227
Government grants		
— Unconditional subsidies	2,149	3,267
— Conditional subsidies	3,388	117
Other income	60	256
	5,804	4,867

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	
	2020	2019
	RMB'000	RMB'000
Interest on bank loans	31,972	35,870
Interest on lease liabilities	26	—
Less: interest expense capitalised into properties under development	(4,335)	—
	27,663	35,870

The borrowing costs have been capitalised at rate of 6.84% during the six months ended 30 June 2020 (six months ended 30 June 2019: Not applicable).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs (including directors' emoluments)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	28,252	23,160
Retirement scheme contributions	471	2,559
	28,723	25,719

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

(c) Other items

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Depreciation and amortisation		
— Property, plant and equipment	58,026	50,498
— Investment property	21,705	20,616
— Right-of-use assets	3,486	2,382
— Intangible assets	574	559
	83,791	74,055
Cost of inventories (i)	76,767	64,200
Listing expenses	—	13,802

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax — PRC income tax		
Provision for the period	14,152	7,893
Deferred tax		
Origination and reversal of temporary differences	(6,069)	3,347
	8,083	11,240

- (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 2020, subsidiaries in Hong Kong did not have any assessable profits (six months ended 30 June 2019: nil).
- (iii) The statutory income tax rate for the PRC subsidiaries is 25% unless otherwise specified below (six months ended 30 June 2019: 25%).

For the six months ended 30 June 2020, Huizhou Jinmaoyuan Environmental Technology Co., Ltd. (“**Huizhou Jinmaoyuan**”), engaging in electroplating wastewater treatment, was entitled to the preferential tax policy on environmental protection devices. Accordingly, for the six months ended 30 June 2020, the income tax of Huizhou Jinmaoyuan were reduced by RMB471,000 (six months ended 30 June 2019: RMB26,000). Such additional tax deduction equals to 10% of total purchasing amount of environmental protection devices, which would be utilised in following five years upon purchase of the environmental protection devices.

For the six months ended 30 June 2020, according to relevant tax rules in the PRC, additional tax deduction on research and development expenses when determining the assessable profits equals to 75% of the amount of research and development expenses actually incurred. Accordingly, the income tax of Huizhou Jinmaoyuan and Tianjin Bingang Electroplating Enterprises Management Co., Ltd. (“**Tianjin Bingang**”) for the six months ended 30 June 2020 was reduced by RMB1,016,000 and RMB537,000, respectively (six months ended 30 June 2019: RMB850,000 and RMB599,000, respectively).

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 2018 to 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX *(Continued)*

(iii) (Continued)

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 2019 to 2021.

The Group has not recognised deferred tax assets of RMB214,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB164,000), 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 RMB48,237,000 (six months ended 30 June 2019: RMB9,654,000) and the weighted average number of 1,120,000,000 ordinary shares (six months ended 30 June 2019: 840,000,000 shares) in issue during the interim period.

The numbers of shares for six months ended 30 June 2019 is based on the assumption that the 840,000,000 shares of the Company had been issued throughout 2019 and before the IPO on 16 July 2019.

(b) Diluted earnings per share

During the six months ended 30 June 2020 and 2019, there were no dilutive potential ordinary shares issued. Therefore, diluted earnings per share were the same as the basic earnings per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 INVESTMENT PROPERTY

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

As at 30 June 2020, the fair value of the Group's investment property was approximately RMB1,466,400,000 (31 December 2019: RMB1,437,273,000). 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 RMB632,239,000 were pledged to secure the Group's bank loans (note 15(ii)) as at 30 June 2020 (31 December 2019: RMB655,469,000).

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB199,864,000 (six months ended 30 June 2019: RMB60,143,000).

Certain property, plant and equipment with carrying value of RMB483,851,000 were pledged to secure the Group's bank loans and other borrowings (note 15(ii)) as at 30 June 2020 (31 December 2019: RMB301,237,000).

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 2020, the remaining period of the land-use rights ranges from 35 to 49 years (31 December 2019: 36 to 50 years).

Certain land-use rights with carrying value of RMB114,343,000 were pledged to secure the Group's bank loans and other borrowings (note 15(ii)) as at 30 June 2020 (31 December 2019: RMB95,890,000).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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 2020 RMB'000	At 31 December 2019 RMB'000
Current		
Within 1 month	79,333	95,426
1 to 3 months	7,941	6,890
4 to 6 months	1,784	949
Over 6 months	954	868
Trade debtors net of allowance for doubtful debts	90,012	104,133
Deductible input value-added tax	54,705	40,316
Loan deposits (i)	–	10,000
Prepayments and other receivables	5,041	2,865
	149,758	157,314
Non-current		
Prepayments for purchase of property, plant and equipment	14,623	11,789
Deposits for acquisition of land-use rights, constructions and borrowings	–	3,999
	14,623	15,788
Total	164,381	173,102

(i) It represents the payment to a bank as deposits for certain bank loans. In January 2020, the amount of RMB10,000,000 had been repaid by the bank.

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

13 CASH AND CASH EQUIVALENTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash on hand	150	255
Cash at bank	82,958	103,042
	83,108	103,297

As at 30 June 2020, cash and cash equivalents placed with banks in Mainland China amounted to RMB78,165,000 (31 December 2019: RMB77,223,000). Remittance of funds out of Mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

14 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 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	36,618	49,190
1 to 3 months	9,750	9,364
4 to 6 months	3,090	1,984
Over 6 months	803	41
Trade creditors	50,261	60,579
Deposits due to customers	139,515	136,872
Payables for equipment and construction	374,844	330,872
Interest payable	1,610	1,732
Payroll payable	7,914	10,499
Other payables to third parties	7,921	12,340
Total	582,065	552,894

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 BANK LOANS AND OTHER BORROWINGS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Secured bank loans	934,377	903,705
Secured other borrowings	30,000	–
Total	964,377	903,705

As at 30 June 2020, the bank loans and other borrowings were repayable as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year or on demand	251,229	253,558
After 1 year but within 2 years	282,119	233,281
After 2 years but within 5 years	395,938	370,492
After 5 years	35,091	46,374
Sub-total	713,148	650,147
Total	964,377	903,705

- (i) As at 30 June 2020, bank loans amounted to RMB934,377,000 (31 December 2019: RMB903,705,000) were floating-interest rate loans with interest rates ranged from 5.22% to 6.86% (31 December 2019: 5.70% to 6.86%). Other borrowings amounted to RMB30,000,000 (31 December 2019: nil) were fixed-interest rate borrowings with a monthly interest rate of 0.492% (31 December 2019: nil).
- (ii) Secured bank loans and other borrowings as at 30 June 2020 and 31 December 2019 were secured by certain of the Group's charge rights of rental income and property, plant and equipment (note 10), investment property (note 9), right-of-use assets (note 11), and deposits with a bank.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 BANK LOANS AND OTHER BORROWINGS *(Continued)*

- (iii) Bank loans amounted to RMB774,489,000 as at 30 June 2020 (31 December 2019: RMB804,705,000) 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.
- (iv) Bank loans and other borrowings amounted to RMB964,377,000 as at 30 June 2020 (31 December 2019: RMB903,705,000) 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 2020, none of the covenants relating to drawn down facilities had been breached (31 December 2019: nil).

16 DIVIDENDS

No dividends have been declared or paid by the Company for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy *(Continued)*

	Fair value at 30 June 2020 RMB'000	Fair value measurements as at 30 June 2020 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Other financial assets:				
Unlisted equity securities	7,667	–	7,667	–

	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Other financial assets:				
Unlisted equity securities	8,165	–	8,165	–

As at 30 June 2020 and 31 December 2019, the fair value of unlisted equity securities in Level 2 is determined with reference to the unaudited financial statements and audited financial statements of Boluo Changjiang Rural Bank respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for	368,562	498,348
Authorised but not contracted for — Sichuan Qingshen Project	2,000,000	2,000,000
	2,368,562	2,498,348

19 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions. During the six months ended 30 June 2020, the directors are of the view that the following are related parties of the Group:

Name of the party	Relationship
Mr. Zhang Lianghong	Controlling shareholder, chairman of the board
Mr. Lee Yuk Kong	Executive Director
Boluo Jinchang Trading Company Limited (i)	Effectively owned by Mr. Zhang Lianghong
Huizhou Jinshang Real Estate Development Company Limited (i)	Mr. Zhang Lianghong has significant influence over the entity
Huizhou Yongjiasheng Industrial Co., Ltd. (i)	Effectively owned by Mr. Lee Yuk Kong
Flourish Investment International Limited	Owned by Mr. Zhang Lianghong

Note:

- (i) The official names of the above entities are in Chinese. The English names are for identification purpose only.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, is as follows.

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Salaries and other benefits	2,726	1,300
Retirement scheme contributions	5	155
	2,731	1,455

Total remuneration is included in "staff costs" (note 6(b)).

(b) Related parties transactions

During the six months ended 30 June 2020, the Group entered into the following material related party transactions:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Guarantee on bank loans provided to		
Boluo Jinchang Trading Company Limited (i)	-	102,000

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Advances to:		
— Huizhou Yongjiasheng Industrial Co., Ltd.	-	21,618
— Mr. Zhang Lianghong	-	27,982
	-	49,600

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Related parties transactions (Continued)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Advances from:		
— Huizhou Jinshang Real Estate Development Company Limited	—	26,000
— Flourish Investment International Limited	—	34,777
	—	60,777

(i) The guarantee of RMB102 million were fully released from the Group by June 2019.

20 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include but not limited continuously monitoring the operations of our customers and strengthening cost control and assessing our suppliers' readiness. As at the date that the interim financial report is authorised for issue, COVID-19 doesn't have material adverse impact on the financial position and operating result of the Group. The Company will closely monitor the situation, and assess its impacts on the Group's financial position and operating results.

REVIEW REPORT TO THE BOARD OF DIRECTORS

Review report to the board of directors of Kimou Environmental Holding Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 19 to 48 which comprises the consolidated statement of financial position of Kimou Environmental Holding Limited (the “**Company**”) as of 30 June 2020 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

REVIEW REPORT TO THE BOARD OF DIRECTORS (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
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28 August 2020