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## **Kunming Dianchi Water Treatment Co., Ltd.**

### **昆明滇池水务股份有限公司**

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

**(Stock Code: 3768)**

## **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

### **FINANCIAL SUMMARY**

For the year ended 31 December 2020, the Group's:

- revenue amounted to approximately RMB1,919 million, representing an increase of 4.7% from 2019;
- profit before tax amounted to approximately RMB415 million, representing an decrease of 5.2% from 2019;
- profit attributable to equity holders of the Company amounted to approximately RMB349 million, representing an decrease of 5.4% from 2019; and
- earnings per share amounted to approximately RMB0.34, representing an decrease of 5.6% from 2019.

The Board proposes to distribute a final cash dividend of RMB0.120 per share (tax inclusive), totalling RMB123,493,320 (tax inclusive) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 29 June 2021, subject to the approval by the shareholders of the Company at the 2020 Annual General Meeting. The expected dividend distribution date is Thursday, 5 August 2021.

The board (the “**Board**”) of directors (the “**Directors**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) is pleased to announce the audited results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**us**” or “**our**”) for the year ended 31 December 2020 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2019, as follows:

## I. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

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

For the year ended 31 December 2020

	Notes	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
<b>Revenue</b>	3(a)	<b>1,919,423</b>	1,833,542
Cost of sales	6	<u>(1,240,246)</u>	<u>(1,195,618)</u>
<b>Gross profit</b>		<b>679,177</b>	637,924
Selling expenses	6	(13,703)	(13,140)
Administrative expenses	6	(151,365)	(126,082)
Research and development expenses	6	(7,398)	(5,719)
Net impairment losses on financial assets		(26,671)	(8,829)
Other (expenses)/income – net	5	(42,845)	86,512
Other losses	4	<u>(7,671)</u>	<u>(974)</u>
<b>Operating profit</b>		<b>429,524</b>	569,692
Finance income		71,789	61,408
Finance costs		<u>(85,520)</u>	<u>(192,709)</u>
Finance costs – net	7	<u>(13,731)</u>	<u>(131,301)</u>
Share of results of associates		<u>(312)</u>	<u>(241)</u>
<b>Profit before tax</b>		<b>415,481</b>	438,150
Income tax expenses	8	<u>(65,053)</u>	<u>(68,072)</u>
<b>Profit for the year</b>		<b>350,428</b>	370,078
<b>Other comprehensive income</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Surplus on property revaluation upon transfer to investment properties		11,145	–
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on consolidation		<u>2,145</u>	<u>871</u>
		<u>13,290</u>	<u>871</u>
<b>Total comprehensive income for the year</b>		<b>363,718</b>	370,949

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)**

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2020</b>	2019
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Profit attributable to:</b>			
– Equity holders of the Company		<b>348,547</b>	368,411
– Non-controlling interests		<b>1,881</b>	1,667
		<u><b>350,428</b></u>	<u>370,078</u>
<b>Total comprehensive income attributable to:</b>			
– Equity holders of the Company		<b>361,837</b>	369,282
– Non-controlling interests		<b>1,881</b>	1,667
		<u><b>363,718</b></u>	<u>370,949</u>
<b>Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)</b>			
– Basic and diluted earnings per share	9	<u><b>0.34</b></u>	<u>0.36</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2020*

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>Non-current assets</b>			
Investment properties	<i>11</i>	273,755	–
Right-of-use assets/land use rights		437,025	464,182
Property, plant and equipment		2,840,698	3,058,900
Receivables under service concession arrangements	<i>12</i>	2,420,630	1,381,995
Amounts due from customers for construction contracts	<i>13</i>	612,729	516,266
Intangible assets		329,289	199,420
Investments in associates		14,521	14,833
Deferred tax assets		73,606	52,990
		<u>7,002,253</u>	<u>5,688,586</u>
<b>Current assets</b>			
Receivables under service concession arrangements	<i>12</i>	6,562	7,548
Inventories		11,759	22,636
Amounts due from customers for construction contracts	<i>13</i>	26,954	27,578
Financial assets at fair value through profit or loss		–	246,327
Financial assets at amortised cost		300,000	–
Trade and other receivables	<i>14</i>	2,391,034	2,225,415
Cash and bank balances		749,940	1,290,199
Restricted funds		7,990	67,966
		<u>3,494,239</u>	<u>3,887,669</u>
<b>Current liabilities</b>			
Trade and other payables	<i>15</i>	699,096	486,848
Tax payables		96,091	75,273
Borrowings		1,884,963	701,320
Lease liabilities		1,168	3,786
Contract liabilities	<i>15</i>	45,493	7,238
Financial liabilities at fair value through profit or loss		84,613	–
		<u>2,811,424</u>	<u>1,274,465</u>
<b>Net current assets</b>		<u>682,815</u>	<u>2,613,204</u>
<b>Total assets less current liabilities</b>		<u>7,685,068</u>	<u>8,301,790</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Non-current liabilities</b>		
Deferred revenue	<b>248,429</b>	266,354
Borrowings	<b>3,081,966</b>	3,865,047
Lease liabilities	–	1,495
Deferred tax liabilities	<b>82,246</b>	74,473
	<u><b>3,412,641</b></u>	<u>4,207,369</u>
<b>NET ASSETS</b>	<u><b>4,272,427</b></u>	<u>4,094,421</u>
<b>Capital and reserves</b>		
Share capital	<b>1,029,111</b>	1,029,111
Other reserves	<b>1,523,380</b>	1,489,179
Accumulated profits	<b>1,712,800</b>	1,569,375
	<u><b>4,265,291</b></u>	<u>4,087,665</u>
<b>Equity attributable to equity holders of the Company</b>	<u><b>4,265,291</b></u>	<u>4,087,665</u>
<b>Non-controlling interests</b>	<u><b>7,136</b></u>	<u>6,756</u>
<b>TOTAL EQUITY</b>	<u><b>4,272,427</b></u>	<u>4,094,421</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 1. GENERAL

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

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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

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

The consolidated financial statements have been prepared on the basis consistent with accounting policies adopted in 2019 consolidated financial statements except for the adoption of the new/revised IFRSs that are relevant to the Group and effective from the current year as set out below.

#### Adoption of new/revised IFRSs

The Group has applied, for the first time, the following new/revised IFRSs:

Amendments to IASs 1 and 8	Definition of Material
Amendments to IAS 39, IFRSs 7 and 9	Interest Rate Benchmark Reform – Phase 1
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 16	COVID-19-Related Rent Concessions

#### **Amendments to IASs 1 and 8: Definition of Material**

The amendments clarify the definition of material and align the definition used across IFRSs.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Statement of compliance (Continued)

#### *Amendments to IAS 39, IFRSs 7 and 9: Interest Rate Benchmark Reform – Phase 1*

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

#### *Amendments to IFRS 3: Definition of a Business*

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

#### *Amendments to IFRS 16: COVID-19-Related Rent Concessions*

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021. The amendments do not affect lessors.

These amendments shall be applied for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group has elected to early adopt the amendments in the current year. In accordance with the transition provisions therein, the amendments have been applied retrospectively by the Group recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of accumulated profits and therefore the comparative information has not been restated.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group is set out below:

#### **Basis of measurement**

The measurement basis used in the preparation of these consolidated financial statements is historical cost basis, except for investment properties, financial assets at fair value through profit or loss (“**FVPL**”) and financial liabilities at FVPL which is measured at fair value as explained in the accounting policy set out below.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from equity holders of the Company, in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree’s net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instrument’s proportionate share in the recognised amounts of the acquiree’s identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by IFRSs.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Basis of consolidation (Continued)**

#### ***Allocation of total comprehensive income***

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### ***Changes in ownership interests***

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the holding company had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

### **Subsidiaries**

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **Associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investment in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position which is presented within these notes, investments in associates is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of associates and joint ventures are accounted for by the Company on the basis of dividends received and receivable using the equity method.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Associates (Continued)

If an investment in an associate becomes an investment in a joint venture, any retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, on the loss of significant influence, the Group remeasures any retained interest in the former investee at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the partial interest in the investee and the carrying amount of the investment at the date when significant influence is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former investee are accounted for on the same basis as would be required if the former investee had directly disposed of the related assets or liabilities. The fair value of the retained interests on the date of ceasing to be an associate is regarded as the fair value on initial recognition as a financial asset.

### Future changes in IFRSs

At the date of approving these consolidated financial statements, the IASB has issued the following new/revised IFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to IAS 39, IFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2 <sup>1</sup>
Amendments to IAS 16	Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Annual Improvements to IFRSs	2018–2020 Cycle <sup>2</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1	Disclosures of Accounting Policies <sup>3</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>3</sup>
IFRS 17	Insurance Contracts <sup>3</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> The effective date to be determined

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

## 3. SEGMENT INFORMATION

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

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

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

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

### 3. SEGMENT INFORMATION (Continued)

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

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

#### (a) Revenue

The revenue of the Group are set out as follows:

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue from contracts with customers within IFRS 15</b>		
Wastewater treatment	<b>1,276,466</b>	1,213,810
Operating services – under TOO model	<b>872,615</b>	823,658
Operating services – under TOT/BOT model	<b>116,807</b>	79,396
Construction services – under BT model	<b>2,860</b>	67,118
Construction services – under BOT model	<b>209,427</b>	180,345
Finance income	<b>74,757</b>	63,293
Reclaimed water supply and running water supply	<b>260,986</b>	304,857
Operating services of reclaimed water supply – under TOO model	<b>23,943</b>	18,102
Operating services of running water supply – under TOT/BOT model	<b>6,538</b>	14,507
Construction services – under BT model	–	44,005
Construction services – under BOT model	<b>198,315</b>	184,431
Finance income	<b>32,190</b>	43,812
Others	<b>381,971</b>	314,875
Management services	<b>190,154</b>	139,108
Transportation services	<b>4,039</b>	4,252
Construction services – under BT model	<b>84,642</b>	35,291
Thermal production	<b>77,671</b>	110,587
Others	<b>25,465</b>	25,637
	<b><u>1,919,423</u></b>	<b><u>1,833,542</u></b>

The revenue from contracts with customers within IFRS 15 is recognised over time, except the transportation services is recognised at a point in time.

### 3. SEGMENT INFORMATION (Continued)

#### (b) Segment information

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2020 are presented as below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,276,466</u>	<u>260,986</u>	<u>381,971</u>	<u>1,919,423</u>
Segment gross profit	<u>558,256</u>	<u>53,420</u>	<u>67,501</u>	<u>679,177</u>
Segment profit	<u>440,743</u>	<u>37,568</u>	<u>82,153</u>	<u>560,464</u>
Fair value loss on financial liabilities at FVPL				<u>(130,940)</u>
Finance income				71,789
Finance costs				(85,520)
Share of results of associates				<u>(312)</u>
Profit before tax				<u><u>415,481</u></u>
<b>Other information</b>				
Depreciation of property, plant and equipment	202,515	6,139	18,469	227,123
Depreciation of right-of-use assets	10,053	125	3,767	13,945
Amortisation of intangible assets	10,434	1,120	–	11,554
Capital expenditures	<u>355,037</u>	<u>9,435</u>	<u>11,944</u>	<u>376,416</u>

Segment assets and liabilities as at 31 December 2020 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment assets</b>	<u>7,267,231</u>	<u>1,060,842</u>	<u>2,080,292</u>	<u>10,408,365</u>
<b>Unallocated:</b>				
Deferred tax assets				73,606
Investments in associates				<u>14,521</u>
<b>Total assets</b>				<u><u>10,496,492</u></u>
<b>Segment liabilities</b>	<u>4,285,038</u>	<u>679,798</u>	<u>1,080,892</u>	<u>6,045,728</u>
<b>Unallocated:</b>				
Deferred tax liabilities				82,246
Tax payables				<u>96,091</u>
<b>Total liabilities</b>				<u><u>6,224,065</u></u>

### 3. SEGMENT INFORMATION (Continued)

#### (b) Segment information (Continued)

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2019 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,213,810</u>	<u>304,857</u>	<u>314,875</u>	<u>1,833,542</u>
Segment gross profit	<u>514,145</u>	<u>57,622</u>	<u>66,157</u>	<u>637,924</u>
Segment profit	<u>445,753</u>	<u>31,526</u>	<u>46,086</u>	<u>523,365</u>
Fair value gain on financial assets at FVPL				46,327
Finance income				61,408
Finance costs				(192,709)
Share of results of associates				<u>(241)</u>
Profit before tax				<u><u>438,150</u></u>
<b>Other information</b>				
Depreciation of property, plant and equipment	188,247	5,716	19,839	213,802
Depreciation of right-of-use assets	10,090	–	3,834	13,924
Amortisation of intangible assets	8,787	2,482	438	11,707
Write-off of intangible assets	9,458	–	–	9,458
Capital expenditures	<u>205,189</u>	<u>34,040</u>	<u>25,479</u>	<u>264,708</u>

Segment assets and liabilities as at 31 December 2019 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment assets</b>	<u>6,760,731</u>	<u>743,269</u>	<u>2,004,432</u>	<u>9,508,432</u>
<b>Unallocated:</b>				
Deferred tax assets				52,990
Investments in associates				<u>14,833</u>
<b>Total assets</b>				<u><u>9,576,255</u></u>
<b>Segment liabilities</b>	<u>3,879,507</u>	<u>385,147</u>	<u>1,067,434</u>	<u>5,332,088</u>
<b>Unallocated:</b>				
Deferred tax liabilities				74,473
Tax payables				<u>75,273</u>
<b>Total liabilities</b>				<u><u>5,481,834</u></u>

### 3. SEGMENT INFORMATION (Continued)

#### (c) Geographical information

The Group's operations are principally located in the PRC, hence, geographical segment information is not considered necessary.

#### (d) Information about major customers

The major customers whose revenue amounted to 10% or more of the Group's total revenue were as below.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	564,284	543,279
Customer B	249,068	230,505
	<u>813,352</u>	<u>773,784</u>

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

### 4. OTHER LOSSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	737	577
Donation	6	33
Penalty expenses ( <i>Note a</i> )	2,388	–
Penalty expenses – compensation for breach of contract ( <i>Note b</i> )	4,236	–
Others	304	364
	<u>7,671</u>	<u>974</u>

#### Notes:

- (a) Included in the penalty expenses is a claim of approximately RMB2,388,000 payable to Leshan Tenghong Construction Engineering Co., Ltd. (樂山騰宏建築工程有限公司) under the ((2020)川11民終488號) on 23 July 2020.
- (b) Included in the penalty expenses – compensation for breach of contract is a penalty of approximately RMB4,236,000 payable to Leshan Tenghong Construction Engineering Co., Ltd. (樂山騰宏建築工程有限公司) under the ((2020)川11民終489號) on 24 July 2020.

## 5. OTHER (EXPENSES)/INCOME – NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants:	20,223	33,595
– relating to property plant and equipment	10,160	15,855
– relating to research and development activities	766	321
– relating to tax refund ( <i>Note</i> )	9,297	17,419
Interest income from cash and cash equivalents	7,087	882
Interest income from structured deposits	–	899
Fair value change of investment properties	44,827	–
Fair value (loss)/gain of financial (liabilities)/assets at FVPL	(130,940)	46,327
Rental income	11,164	–
Others	4,794	4,809
	<u>(42,845)</u>	<u>86,512</u>

*Note:* Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax (“VAT”) Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, companies which sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation of resources can enjoy the policy of value-added tax refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% (2019: 70% and 50%) VAT refund, respectively.

## 6. EXPENSES BY NATURE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Depreciation of property, plant and equipment	227,123	213,802
Utilities, electricity and office expenditures	124,733	92,021
Employee benefit expenses	177,907	161,088
Costs of wastewater and water supply services	146,407	105,597
Cost of construction services	446,061	489,553
Taxes and levies	28,693	27,409
Repair and maintenance costs	27,601	21,349
Commission charge	8,446	8,642
Depreciation of right-of-use assets	13,945	13,924
Subcontracting costs	59,946	44,972
Professional expenses	16,057	17,659
Research and development expenses	7,398	5,719
Amortisation of intangible assets	11,554	11,707
Auditor’s remuneration	2,981	3,302
Write-off of intangible assets	–	9,458
Fuels expenses	57,321	80,590
Miscellaneous	56,539	33,767
<b>Total cost of sales, selling expenses, administrative expenses and research and development expenses</b>	<u><b>1,412,712</b></u>	<u><b>1,340,559</b></u>

## 7. FINANCE COSTS – NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Finance income:</b>		
– Interest income from term deposits	123	361
– Interest income charged to related parties	<u>71,666</u>	<u>61,047</u>
	<u>71,789</u>	<u>61,408</u>
<b>Finance costs:</b>		
– Total interest expenses on borrowings	(227,092)	(158,292)
– Interest expenses on unsecured borrowings	(95,607)	(40,609)
– Interest expenses on corporate bonds	(31,524)	(31,015)
– Interest expenses on secured borrowings	(99,961)	(86,668)
– Less: borrowing costs capitalised in property, plant and equipment	8,586	8,610
– Finance charges on lease liabilities	<u>(168)</u>	<u>(382)</u>
– Interest expenses – net	(218,674)	(150,064)
– Exchange gain/(loss) – net	133,283	(41,642)
– Others	<u>(129)</u>	<u>(1,003)</u>
	<u>(85,520)</u>	<u>(192,709)</u>
Finance costs – net	<u><u>(13,731)</u></u>	<u><u>(131,301)</u></u>

## 8. INCOME TAX EXPENSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax	74,486	57,139
Under provision in prior years	<u>2,980</u>	<u>2,629</u>
	77,466	59,768
Deferred tax	<u>(12,413)</u>	<u>8,304</u>
Income tax expenses	<u><u>65,053</u></u>	<u><u>68,072</u></u>

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of corporations incorporated in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

## 8. INCOME TAX EXPENSES (Continued)

Under the Law of the PRC on Corporate Income Tax (the “CIT Law”) and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group’s PRC subsidiaries during the year ended 31 December 2020, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the respective local tax authorities, which was discussed as follows:

- (a) China’s western region development policy (the “**Western Region Development Policy**”) is a preferential tax ruling issued by the State Administration of Taxation of the PRC for companies whose business fall into the catalogue of encouraged industries and located in western region of China. During the years ended 31 December 2020 and 2019, the Company and certain subsidiaries qualified for the Western Region Development Policy were granted the preferential income tax rate of 15%.
- (b) In addition to the Western Region Development Policy, the Company also qualifies as a “High-tech Enterprise” and enjoys a 15% enterprise income tax rate during the years ended 31 December 2020 and 2019.
- (c) Certain newly upgraded wastewater treatment facilities owned by certain PRC subsidiaries meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, such PRC subsidiaries are entitled to three years’ exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.
- (d) Certain PRC subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments enjoyed 10% deduction of CIT.

### Reconciliation of taxation

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Profit before tax	<u>415,481</u>	<u>438,150</u>
Income tax at applicable tax rate	<b>103,870</b>	109,538
Non-deductible expenses ( <i>Note</i> )	<b>354</b>	249
Preferential tax rates of the Company and certain subsidiaries	<b>(35,508)</b>	(39,566)
Additional deduction allowance for research and development expenses	<b>(805)</b>	(615)
Tax exempt revenue	<b>(4,679)</b>	(4,836)
Under provision in prior years	<b>2,980</b>	2,629
Share of results of associates	<b>47</b>	36
Others	<u><b>(1,206)</b></u>	<u>637</u>
Income tax expenses	<u><b>65,053</b></u>	<u>68,072</u>

*Note:* Non-deductible expenses primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law.



## 9. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	2020	2019
Profit attributable to equity holders of the Company (RMB'000)	348,547	368,411
Weighted average number of ordinary shares in issue (thousand)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (RMB)	<u><u>0.34</u></u>	<u><u>0.36</u></u>

The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the years ended 31 December 2020 and 2019.

## 10. DIVIDENDS

	2020 RMB'000	2019 RMB'000
(a) Final dividends for the year ended 31 December 2019 of RMB0.125 per share (tax inclusive) (2018: RMB0.1714 (tax inclusive)) (Note (i))	128,639	176,390
(b) Interim dividends for the six months ended 30 June 2020 of RMB0.054 per share (tax inclusive) (for the six months ended 30 June 2019: Nil) (Note (ii))	<u>55,572</u>	<u>–</u>
	<u>184,211</u>	<u>176,390</u>
(c) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the Board has recommended the payment of a final dividend of RMB0.120 per share (tax inclusive) (2019: RMB0.125 (tax inclusive)). The aggregate amount of the proposed dividends is expected to be paid in August 2021 out of accumulated profits at 31 December 2020, but not recognised as a liability at year end	<u>123,493</u>	<u>128,639</u>

### Notes:

- (i) As approved by the annual general meeting on 19 June 2020, the Company declared a dividend of approximately RMB128,638,875 (tax inclusive) in respect of the accumulated distributable profit as at 31 December 2019. The declaration of the dividend has been reflected as an appropriation of accumulated profits during the year ended 31 December 2020. The dividends were paid out during the year ended 31 December 2020.
- (ii) As approved by the 2020 first extraordinary general meeting on 6 November 2020, the Company declared a interim dividend of approximately RMB55,571,994 (tax inclusive) in respect of the accumulated distributable profit as at 30 June 2020. The declaration of the interim dividends has been reflected as an appropriation of accumulated profits during the six months ended 30 June 2020. The interim dividends were paid out during the year ended 31 December 2020.

## 11. INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
<b>At fair value</b>		
At the beginning of the reporting period	–	–
Transfer from right-of-use assets and construction in progress	217,783	–
Change in fair value	44,827	–
Surplus on property revaluation upon transfer to investment properties	11,145	–
	<u>273,755</u>	<u>–</u>
At the end of the reporting period	<u>273,755</u>	–

During the year ended 31 December 2020, the Group's investment properties under construction in the Kunming No. 2 Water Purification Plant were completed and leased out under relevant leases, and were transferred from right-of-use assets and property, plant and equipment to investment properties for accounting purposes, with a construction cost of approximately RMB204,586,000. At the end of the Reporting Period, based on the valuation made by Beijing Yachao Asset Appraisal Co.,Ltd. (北京亞超資產評估有限公司) (“Beijing Yachao”), an independent professional qualified valuer, the fair value of the entire buildings No. 1, No. 2 and No. 3 (including the basement) of the Kunming No. 2 Water Purification Plant leased out was approximately RMB249,413,000, and the difference between the fair value and the carrying amount of approximately RMB44,827,000 was recognised in profit or loss:

The Group leased out the self-occupied management buildings in the Kunming No.3 Water Purification Plant and transferred such buildings from property, plant and equipment to investment properties for accounting purpose, with the carrying amount of approximately RMB2,204,000. At the end of the Reporting Period, based on the valuation made by Beijing Yachao, the fair value of the six management buildings of the Kunming No.3 Water Purification Plant was approximately RMB11,863,000, and the difference between the fair value and the carrying amount of approximately RMB9,659,000 was recognised in other comprehensive income; and

Liuyang Water and Hongyu Thermal Power, subsidiaries of the Group, leased out the land use rights for two pieces self-occupied lands located at the Paper Making Industry Base in Dayao Town, Liuyang City and transferred the land use rights to investment properties for accounting purpose, with a carrying amount of approximately RMB10,993,000. At the end of the Reporting Period, based on the valuation made by Beijing Yachao, an independent professional qualified valuer, the fair value of the land use rights for two pieces of lands located at the Paper Making Industry Base in Dayao Town, Liuyang City was approximately RMB12,479,000, and the difference between the fair value and the carrying amount of the lands of approximately RMB1,486,000 was recognised in other comprehensive income.

At the end of the Reporting Period, the fair value of the investment properties located in the PRC was approximately RMB273,755,000 (2019: Nil). They were revalued by Beijing Yachao, independent professional qualified valuer, with appropriate qualification and recent experience in the valuation of similar properties in the relevant location.

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

### Leasing arrangement – as lessor

The investment properties are leased to tenants on a noncancellable term of five years to eight years (2019: Nil). The lease does not contain any renewal option. Monthly rental charges are fixed payments. The tenant also bears the management fees and amounts charged by the government such as the Goods and Services Tax levied on the Group.

The investment properties are subject to residual value risk. The lease contracts, as a result, include a provision on residual value guarantee based on which the Group has the right to charge the tenants for any damage to the investment properties at the end of the lease. Besides, the Group has collected rental deposits to protect certain investment properties against any loss that may arise from accidents or physical damages of the properties.

## 12. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the “Facilities”). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 19 to 30 years (the “Service Concession Periods”), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 5.10% p.a. to 9.23% p.a..

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with respect to the Group’s service concession arrangements.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Receivables under service concession arrangements</b>		
Current portion:		
Receivables under service concession arrangements	6,612	7,550
Loss allowance	(50)	(2)
	<u>6,562</u>	<u>7,548</u>
Non-current portion:		
Receivables under service concession arrangements	2,433,633	1,382,480
Loss allowance	(13,003)	(485)
	<u>2,420,630</u>	<u>1,381,995</u>
	<u><u>2,427,192</u></u>	<u><u>1,389,543</u></u>

In respect of the Group’s receivables under service concession arrangements, the Group has different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group’s service concession arrangements.

### 13. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
<b>Costs incurred to date plus recognised profits less recognised losses</b>		
Current portion:		
Amounts due from customers for construction contracts	<b>26,954</b>	28,030
Loss allowance	–	(452)
	<u><b>26,954</b></u>	<u>27,578</u>
Non-current portion:		
Amounts due from customers for construction contracts	<b>619,954</b>	521,948
Loss allowance	<b>(7,225)</b>	(5,682)
	<u><b>612,729</b></u>	<u>516,266</u>
	<u><b>639,683</b></u>	<u>543,844</u>

To measure the ECL, amounts due from customers for construction contracts have been grouped based on shared credit risk characteristics and the days past due. The ECL also incorporate forward looking information. As at 31 December 2020, a provision of approximately RMB7,225,000 (2019: approximately RMB6,134,000) was made against the gross amounts to amounts due from customers for construction contracts.

#### 14. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Trade receivables (Note (a)):</b>		
– Third parties	83,918	80,165
– Related parties	85,983	123,168
– Local government	990,790	780,419
– Loss allowance	<u>(35,312)</u>	<u>(16,294)</u>
<b>Trade receivables – net</b>	<u><b>1,125,379</b></u>	<u>967,458</u>
<b>Other receivables:</b>		
– Third parties	128,176	57,597
– Related parties (Note (b))	1,029,152	1,026,202
– Local government	53,319	47,057
– Loss allowance	<u>(5,533)</u>	<u>(3,472)</u>
<b>Other receivables – net</b>	<u><b>1,205,114</b></u>	<u>1,127,384</u>
<b>Prepayments:</b>		
– Local government	–	3,587
– Others	60,545	126,990
– Loss allowance	<u>(4)</u>	<u>(4)</u>
<b>Prepayments – net</b>	<u><b>60,541</b></u>	<u>130,573</u>
<b>Trade and other receivables – net</b>	<u><b>2,391,034</b></u>	<u><b>2,225,415</b></u>

As at 31 December 2020, the fair values of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2020, the carrying amounts of trade and other receivables are principally denominated in RMB. The trade receivables are due for payment upon presentation of invoices.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the life time expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2020, a provision of approximately RMB35,312,000 (2019: approximately RMB16,294,000) was made against the gross amounts to trade receivables.

To measure the ECL, other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2020, a provision of approximately RMB5,533,000 (2019: approximately RMB3,472,000) was made against the gross amounts to other receivables.

#### 14. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(a) Ageing analysis of gross trade receivables at the end of the reporting period, based on the invoice dates, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
– Within one year	971,116	935,027
– Over one year and within two years	175,053	37,300
– Over two years	14,522	11,425
	<u>1,160,691</u>	<u>983,752</u>

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

(b) The Company entered into the entrusted loan contracts with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, “Xindu Investment”), Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, “Kunming Bus”), and Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, “Kunming DIG”) with some major PRC banks on 4 September 2020, 23 January 2020, 13 February 2020 and 2 June 2020, respectively. Pursuant to the entrusted loan contracts, the Group entrusted these major PRC banks to grant loans of RMB350,000,000, RMB60,000,000, RMB240,000,000 and RMB350,000,000 to Xindu Investment, Kunming Bus, and Kunming DIG, respectively. The loans to Kunming Bus of RMB60,000,000 and RMB240,000,000 have been settled subsequent to year end.

#### 15. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables to third parties (Note c)	327,203	150,971
Other payables due to:	148,067	146,012
– related parties	23,255	14,635
– local government	1,182	1,791
– third parties	123,630	129,586
Consideration payable for acquisition of subsidiaries	53,057	21,209
Staff salaries and welfare payables	42,543	42,285
Payables for acquisition of property, plant and equipment due to:	48,566	46,207
– related parties	16,040	16,040
– third parties	32,526	30,167
Payables for acquisition of land use rights from related parties	58,194	58,194
Interest payables	5,929	4,586
Accrued taxes other than income tax	15,537	17,384
Total trade and other payables	<u>699,096</u>	<u>486,848</u>

15. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contract liabilities ( <i>Note d</i> )		
– local government	30,793	–
– third parties	14,700	7,238
	<u>45,493</u>	<u>7,238</u>

*Notes:*

- (a) As at 31 December 2020, all trade and other payables of the Group were not required to pay interests, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities. The trade payables are normally granted with credit terms ranging from 30 to 90 days.
- (b) As at 31 December 2020, the Group's trade and other payables are principally denominated in RMB.
- (c) Ageing analysis of trade payables to third parties by invoice date at the end of the reporting period is as follow:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
– Within one year	214,562	137,309
– Over one year and within two years	100,354	13,662
– Over two years	12,287	–
	<u>327,203</u>	<u>150,971</u>

- (d) The movements (excluding those arising from increases and decreases both occurred within the same year) of receipt in advance from contracts with customer within IFRS 15 during each of the reporting period are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At the beginning of the reporting period	7,238	11,737
Recognised as revenue	(7,238)	(11,737)
Receipt of advances or recognition of receivables ( <i>Note</i> )	45,493	7,238
	<u>45,493</u>	<u>7,238</u>

*Note:*

The amounts represented the receipts in advance from local government and third parties for wastewater treatment and BOT project under construction.

Included in the amount of transaction price allocated to the remaining performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2020 is approximately RMB45,493,000 (2019: approximately RMB7,238,000), which is expected to be recognised as revenue within 1 year.

## 15. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

Notes: (Continued)

### (e) Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and 2019 are as follows:

Amounts expected to be recognised as revenue:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Total transaction price allocated to the unsatisfied performance obligations	<u>21,140,635</u>	<u>21,000,797</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to operation services and construction services, of which the performance obligations are to be satisfied within 30 years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

The Group has applied the practical expedient under IFRS 15.121(a) and does not disclose the information about its remaining performance obligations of contracts with an original expected duration of one year or less.

## 16. EVENTS AFTER THE REPORTING PERIOD

In addition to the events disclosed elsewhere in these consolidated financial statements, the Group had the following subsequent events:

### (a) Dividends

Pursuant to a resolution of the Board of the Directors dated 26 March 2021, the Company has proposed final dividends of RMB0.120 per share (inclusive of tax), which is RMB123,493,320 in total (inclusive of tax). The proposal is subject to approval by the shareholders at the annual general meeting of the Company.

### (b) Provision of entrusted loans

The Company entered into two entrusted loan contracts with Kunming Bus and Bank of Communications on 23 January 2020 and 13 February 2020 respectively, pursuant to which the Company entrusted Bank of Communications to grant loans of RMB60,000,000 and RMB240,000,000 respectively to Kunming Bus, which shall become due on 23 January 2021 and 14 February 2021, respectively. On 22 February 2021, all the loans under these entrusted loan contracts were repaid pursuant to relevant entrusted loan contracts, and interest of approximately RMB3,613,000 was received subsequently after the Reporting Period.

The Company entered into an entrusted loan contract with Kunming Bus and Bank of Communications on 22 February 2021, pursuant to which the Company entrusted Bank of Communications to grant loans of RMB300,000,000 to Kunming Bus with a term from 24 February 2021 to 24 February 2022 at an interest rate of 8.5% per annum.



## **II. MANAGEMENT DISCUSSION AND ANALYSIS**

### **A. OPERATING ENVIRONMENT**

In 2020, the world economy was significantly impacted by the pandemic of pneumonia caused by the novel coronavirus (“COVID-19”) that swept through the world, resulting in entrenched economic downturn. In the face of the sudden outbreak of COVID-19, rising protectionism, global economic decline and other challenges, China bounced back amid adversities and became the only major economy in the world to achieve positive economic growth in 2020, recording a historic breakthrough in its Gross Domestic Product (GDP). Despite the fact that the global economic growth may continue to be hindered by COVID-19 in 2021, with the gradual vaccination and a series of economic policies implemented by different countries, global economic activities are expected to gradually recover.

Since the 18th CPC National Congress, ecological advancement has always been a key task of national governance of China. With the comprehensive and in-depth implementation of ecological system reform, ecological environment protection has undergone historic and comprehensive changes. Governments at different levels attached great importance to ecological advancement construction with unprecedented efforts made in deepening awareness, strengthening pollution control, frequently issuing relevant regulations, strictly carrying out law enforcement and inspection and rapidly improving the environment, which delivered remarkable results in the construction of ecological advancement. As China accelerates the implementation of the ecological advancement construction strategy and fully carries out ecological and environmental protection, the environmental protection industry is now in a period of in-depth reform and adjustment which brings strategic opportunities. Instead of the extensive development model in the past, the water industry is entering a new stage of pursuing high-quality development. The wastewater treatment industry in which the Company’s main business operates is relatively stable and less susceptible to the fluctuations of the economic cycle, and the industry policy orientation and investment environment of the industry maintained a generally positive and favourable trend. In addition, the strengthening supervision also created demand for optimisation and upgrade of facilities as well as enhancement of standards and efficiency, thereby bringing development opportunities for the industry.

We enjoy exclusive rights to provide wastewater treatment services to Kunming and other regions of China. Such concession rights are beneficial for the Company to continue to maintain and consolidate its operating advantages and competitive edge in the water market in Yunnan Province. Leveraging our concession-based business model, technology, the capability of project implementation, and expansion of service regions, we have achieved stable income and steady business growth, which laid a promising foundation for us to consolidate upstream and downstream industrial chains such as water resources, watershed management, sludge recycling and utilisation, and develop market segments such as industrial wastewater treatment.

## 1. Overview of Wastewater Treatment Industry

In recent years, China has put greater emphasis on ecological environment management and included such topic in its national strategies. The government has issued a series of policies, such as the “Guidance on Improving the Policy on Wastewater Treatment Fee Charging Mechanism in Yangtze River Economic Zone (《關於完善長江經濟帶污水處理收費機制有關政策的指導意見》)”, the “Action Plan for Protection and Restoration of Yangtze River (《長江保護修復攻堅戰行動計劃》)”, the “Implementation Plan for Improving the Weakness of Urban Domestic Wastewater Treatment Facilities (《城鎮生活污水處理設施補短板強弱項實施方案》)” and the “Guidance on Promoting Rural Domestic Wastewater Treatment (《關於推進農村生活污水治理指導意見》)”. Benefiting from the continuous policy support, the water infrastructure improved continuously in recent years, and the wastewater treatment volume in cities, counties and towns continued to increase. At the same time, the relevant policies and market development also imposed higher development requirements on the industry, and promoted the transition from size growth to pursuit of higher quality and efficiency and high-quality development. With the requirements of high-quality development, competition in the industry was further intensified and formed a pattern of survival of the fittest where challenges and opportunities coexist for sizable enterprises with established foundation. Opportunities come from the huge development potential of the industry driven by favourable policies and market conditions, which created merger and acquisition opportunities in upstream and downstream of the industry chain. These enterprises may capture new market shares by leveraging their own advantages in business operation, technology and financing. Challenges lie in the abilities of these enterprises to effectively integrate the existing business, new market business as well as upstream and downstream business in the industry chain to meet the demand of high-quality development of the market.

2021 is the opening year of the “14th Five-Year Plan”. As the demand for economic and social development further increased, especially after the outbreak of COVID-19, the society has increasing demand and higher requirements for ecological environment and public health and safety, therefore ecological environment protection will become one of the focuses of the “14th Five-Year Plan” and long-term development. As the main approach of ecological environment management, wastewater treatment industry will have huge potential in investment and development of upgrade and transformation, rural environmental management, intelligent water services and watershed management.

## **2. Overview of Reclaimed Water Industry**

At present, China is still in preliminary stage for utilisation of reclaimed water with insufficient development and low level of utilisation. However, as an alternative and complementary resource to conventional water resources, reclaimed water can be widely applied in ecological water recharge, agricultural irrigation, industrial production, municipal miscellaneous use and recharge of groundwater, thereby improving the imbalance between water supply and demand. In January 2021, the National Development and Reform Commission and nine governmental departments including the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the Ministry of Finance and the Ministry of Ecology and Environment jointly issued the “Guidance on Promoting Recycling and Utilisation of Wastewater Resources (《關於推進污水資源化利用的指導意見》)” to make general plans to fully promote recycling and utilisation of wastewater resources by setting various goals including: by 2025, the national wastewater collection efficiency will be significantly improved, the wastewater treatment capacity in counties, towns and cities can basically meet the needs of local economic and social development, and the upgrade and improvement of wastewater treatment in areas with sensitive water environment will be completed; the reclaimed water utilisation rate of water-scarce cities at prefecture level and above will exceed 25%, and that of Beijing-Tianjin-Hebei area will exceed 35%; the reuse of industrial water and utilisation of livestock and poultry manure and fishery tailwater resources will be significantly improved; and the policy system and market mechanism for wastewater resource utilisation will be basically established. By 2035, China will form a pattern of systematic, safe, environmentally friendly and cost-effective utilisation of wastewater resources.

## **3. Overview of Municipal Water Supply Industry**

In recent years, the steady and rapid development of China’s national economy and the increasing urbanisation have become an important basis for the continuous development of the water supply industry and the increasingly strong demand for water. The comprehensive production capacity of municipal water supply and the investment in municipal water supply facilities and municipal water supply pipelines also showed a steady growth trend.

With the national promotion of water conservation, water resource recycling and reuse, the price adjustment of municipal water supply also showed a trend linking to relevant policies. In Yunnan Province, the PRC, the relocation of manufacturing industry to China’s western provinces and the accelerated urbanisation in these regions are expected to boost the growth of urban population and GDP, which in turn will increase the demand for municipal running water supply. The government highly values the development of running water supply in western China. Driven by the state policies, the water treatment services industry is expected to see huge market opportunities and potential in the future. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanisation in China and the Chinese government’s policy supporting the environmental protection industry.

#### **4. Impact of the COVID-19 Pandemic**

The outbreak of COVID-19 that has been spreading around the world since 2020 has caused extensive impact on the health and economy of the world. Facing the challenges from the pandemic, the Group prioritised the continuous provision of reliable and high-quality services to the customers to guarantee that, during the pandemic, the quality of wastewater treatment, reclaimed water and running water supply fulfilled relevant standards, while ensuring the safety and health of the employees. During the Reporting Period, all wastewater treatment plants, reclaimed water supply facilities and running water supply facilities of the Company maintained normal operation, and wastewater treatment volume was basically the same as the same period of previous year. During the Reporting Period, the COVID-19 pandemic did not cause any material and adverse impact on the Group's operation, finance or future plan.

Affected by the pandemic, the Group's construction projects were temporarily suspended in the first quarter of 2020 at the request of the local government. For locations of the projects requiring labor and materials, various measures were adopted such as suspension of work and production as well as restrictions on movement of personnel and materials logistics, etc. which indirectly affected the actual construction progress of the projects. Throughout the Reporting Period, relevant projects have been effectively implemented according to the established plan, and therefore the postponement of commencement of construction at the first quarter of the year did not have any material adverse effect on the progress of the Company's projects.

Moreover, as the main business of the Company is water treatment, revenue is mainly generated from the local governments. To combat the pandemic with unremitting effort, the fiscal expenditures of the local governments are prioritised for pandemic prevention and control, which may have an impact on the timing of settlement of receivables from local government. With the effective and ongoing implementation of pandemic prevention and control measures and the continuous progress made in vaccine research and development and vaccination, China's economy is recovering at a faster pace. As such, we are of the view that the pandemic of COVID-19 will not have a significant and adverse impact on the Company's cash flow, production and operation.

## B. DEVELOPMENT STRATEGY AND PROSPECTS

After the outbreak of COVID-19 pandemic and the resulted global economic recession in 2020, the world economy is gradually recovering with active implementation of fiscal policies and vaccination in different countries. However, under the long-lasting impact of COVID-19, the world economy will undergo a series of changes such as structural adjustment, industrial chain restructuring and changes in growth momentum and models, and there is uncertainty in the recovery of the world economy.

As the world's second largest economy, China's economy managed to achieve positive growth in 2020 with effective pandemic prevention and control measures and proactive and pragmatic fiscal policies. With the accelerated formation of a new development landscape based on domestic cycle and mutual support between domestic and international cycles, as well as soild monetary policies that focus more on flexible and appropriate operation, the domestic economy will continue to recover at a rapid pace.

2020 is the concluding year for China's goal of comprehensively building a moderately prosperous society and the "13th Five-Year Plan", and is also a critical year for pollution prevention and control. During the "13th Five-Year Plan" period, the development of the environmental protection industry gradually shifted to high-quality development in a faster pace. The Proposal of the CPC Central Committee on Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 (《中共中央關於制定國民經濟和社會發展第十四個五年計劃和二零三五年遠景目標的建議》) (the "**Proposal**") imposed higher requirements on development of the environmental protection industry during the "14th Five-Year Plan" period. The Proposal stated that China shall take multiple measures to promote high-quality economic development and high-level protection of the ecological environment, deepen the efforts in pollution prevention and control, continue to carry out pollution prevention and control activities and continuously improve the environment. China shall also persist in management of the system of landscapes, forests, fields, lakes and grasses to improve the quality and stability of the ecosystem. It shall fully improve the resource utilisation efficiency, and facilitate the overall management, scientific allocation, comprehensive conservation and recycling and reuse of resources. With the release of the "14th Five-Year Plan" for ecological environmental protection, the scale of investment in ecological environmental protection will continue to remain at high level in the future, creating new growth opportunities for the environmental protection industry.

Under the guidance of key national strategic plans such as the “Yangtze River Economic Belt”, the “Western Development Strategy” and the “14th Five-Year Plan and the Outline of Long-Range Objectives Through the Year 2035” of Yunnan Province, the Company will firmly support the “three critical missions” of China and the plan of Yunnan Province to become a leader in ecological civilisation construction, uphold the development concept of “unitary domination with diversified development” and strive to improve its abilities in comprehensive management of the ecological environment and ecological civilisation construction. The Company enjoys exclusive rights to provide wastewater treatment services to Kunming and other regions of China. In the future, on top of continuous development in our existing business market, we will closely follow the direction of the industry policies and further enhance our comprehensive services by making comprehensive investment in the upstream and downstream of the industry chain in various sectors such as watershed management, high-quality reclaimed water supply, sludge resource utilisation, mine restoration and solid waste treatment and disposal, so as to better meet the requirements of high-quality development of the environmental protection industry in the future and seize the market benefits of high-quality development. For development of investment and financing business, the Company will follow the changes in economic development and environmental policies, adopt prudent investment and financing strategies, and make appropriate and flexible adjustments to ensure that all resources can be utilised to maximum efficiency. In terms of management of sustainable corporate development, we will continue to explore our internal growth drivers, continuously stimulate the potential of the Company in technological innovation, talent team construction and enhancement of management quality and efficiency to ensure sustainable and high-quality development of the Group’s business.

### **C. BUSINESS REVIEW**

We principally adopt the TOO, TOT and BOT project models, with a focus on the TOO model. For the year ended 31 December 2020, our TOO projects contributed to 49.3% of our total revenue. Our TOT projects contributed to 6.6% of our total revenue and our BOT projects contributed to 25.2% of our total revenue. We also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT model, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtained new concessions from or transferred the relevant facilities back to the relevant local governments, depending on project types. As of 31 December 2020, we had a total of 49 plants (41 wastewater treatment plants and 8 running water plants) under concession agreements, of which 44 plants were in operation and 5 plants were under construction. Among the 44 plants in operation, 14 were TOO projects, 22 were TOT projects, 6 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilisation rate of our facilities was above the industry average and the volume of wastewater treated was maintained at a high level. For the year ended 31 December 2020, the total volume of wastewater treated was 657.5 million m<sup>3</sup> with an average facility utilisation rate of 92%.

## **Wastewater Treatment Projects**

As of 31 December 2020, we had a total of 37 wastewater treatment plants in operation (including 14 in Kunming and 23 in other areas of China), with a total wastewater treatment capacity of 1.97 million m<sup>3</sup> per day. We also had 4 wastewater treatment plants under construction in Yunnan Province, the PRC and in Laos, respectively. With our technologically advanced facilities, independently developed patents and strong management skills, we were able to maintain low costs while providing high quality wastewater treatment services. As of 31 December 2020, 91% of our designed wastewater treatment capacity reached the National Class I Category A discharge standard.

In addition, we provided operation management services to 31 facilities under entrustment with a designed total wastewater treatment capacity of 0.5 million m<sup>3</sup> per day.

During the Reporting Period, the Company entered into new contracts for the Rural Wastewater Comprehensive Treatment Project in Xishan District, Kunming (昆明市西山區農村污水綜合治理項目), the Luquan County Municipal Wastewater Collection and Treatment Project (祿勸縣城鎮污水收集處理項目) and the Rural Habitat Environment Treatment Project in Yingjiang County, Dehong Prefecture (德宏州盈江縣農村人居環境治理項目). In addition, we also acquired 100% equity interest in Kunming Dongchuan Guozhen Sewage Treatment Co., Ltd. (昆明市東川區國禎污水處理有限公司) and Putian Huake Environmental Protection Engineering Co. Ltd. (莆田市華科環保工程有限公司) through equity acquisition, which further expanded the business market of the Company.

## **Reclaimed Water Business**

For our reclaimed water business, as of 31 December 2020, we had 10 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 213,000 m<sup>3</sup>. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. During the Reporting Period, reclaimed water supply was 31,176,512 m<sup>3</sup>, representing an increase of approximately 166% compared with 2019.

Since the 19th CPC National Congress, China has introduced various measures to promote water conservation among the general public, improve the overall utilisation of water resources, develop a water-saving production model and lifestyle, ensure national water security and facilitate high-quality development. Meanwhile, with China's regulation on classified water usage, reclaimed water began to show significant economic benefits and cost competitiveness and are widely promoted and used for industrial production, municipal miscellaneous use and ecological water recharge. During the Reporting Period, our reclaimed water supply increased significantly in line with the increase in demand for urban river recharge and municipal miscellaneous use. We have wastewater treatment plants in a number of regions across the country, which lay a solid foundation for the development of our reclaimed water business in those regions, and we will continue to promote the development of our reclaimed water business in accordance with local policies and market demand and supply conditions.

## **Running Water Business**

For our running water business, as of 31 December 2020, we had 7 running water plants in the PRC, and 1 running water plant under construction. During the Reporting Period, the supply of running water remained basically the same as the year of 2019. We expect that following the urbanisation and the construction of water supply facilities, the running water business will grow further.

## **D. MAJOR RISKS**

The operational risks facing the Group are mainly capital-intensive characteristics of the industry, requirements of water quality standards and other force majeure events.

### **Capital-intensive characteristics of the industry**

We are engaged in wastewater treatment, reclaimed water supply and running water supply projects, which typically require significant initial cash outlays and have long payback periods. On average, the investment payback periods for our projects range from five to ten years. If we fail to obtain financing or refinancing for such projects in the amounts required, we may need to finance these projects from our internal resources, which may strain our resources for other corporate purposes. Additionally, we may fail to properly perform our obligations in respect of these projects as a result of a funding shortage, which may lead to a reduction in our returns and may even lead to the loss of our initial capital investments.

We are required to make substantial capital investments during the initial phases of our projects. These investments are primarily dependent on the funds we raise in our global offering and bank loans and corporate bonds to finance. For the year ended 31 December 2020, our total interest-bearing liabilities amounted to RMB4,966.9 million, representing an increase of 8.8% from RMB4,566.4 million in 2019. As of 31 December 2020, our net gearing ratio, calculated as net debt divided by total capital, was 49.6%.

We expect to continue to utilise bank loans and corporate bonds to finance a portion of our investments in our projects. The interest rate of bank loans is mainly affected by the quoted market rate of RMB loans issued by the National Interbank Funding Center each month. The increase in the quoted interest rate of RMB loans in the loan market may increase our total interest expense on RMB borrowings.



### **Requirements of water quality standards**

Our wastewater treatment, reclaimed water supply and running water supply facilities are built to treat wastewater and raw water to specified quality standards. The quality of our treated wastewater and supplied reclaimed and running water depends on the level of pollution of the inflow of wastewater into our facilities and normal operation of our facilities. We are subject to risks of unknown or undiscovered inflow of wastewater into our equipment that exceeds our treatment capacity or defects or compatibility problems with our equipment. We cannot assure that we will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or facilities. In these instances, our facilities may not be able to treat wastewater or raw water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental sanctions, and could lead to the suspension of our operations pending rectification as well as reputational damage. In addition, the incoming wastewater or raw water to be treated by our facilities may contain pollutants exceeding the types and quantity of pollutants we contemplated during the design and construction of the facilities which will adversely affect our operating costs, deterioration of our facilities and effluent quality.

### **Force majeure events**

Any future occurrence of force majeure events, natural disasters or outbreaks of pandemics may restrict business in the areas affected and adversely affect our business and results of operations. These risks include damage to facilities, equipment and structures caused by natural disasters such as heavy rainfall, extremely high or low temperatures and lightning strikes, resulting in interruption of production operation and damage to facilities and equipment, as well as the global outbreak of COVID-19 since 2020. The Company has formulated contingency plans to respond to unexpected force majeure events and conducts emergency drills in daily operation to enhance the ability of the Company and its employees to respond to such events, and procures relevant materials and conducts safety inspections before the onset of the rainy season in places where it operates to reduce the impact of such force majeure events on the Company.

## E. FINANCIAL REVIEW

### 1. Consolidated Results of Operations

Our revenue increased by RMB85.9 million, or 4.7%, to RMB1,919.4 million for the year ended 31 December 2020, from RMB1,833.5 million for the year ended 31 December 2019. Gross profits increased by RMB41.3 million, or 6.5%, to RMB679.2 million for the year ended 31 December 2020, from RMB637.9 million for the year ended 31 December 2019. During the Reporting Period, revenue from wastewater treatment services, reclaimed water and running water supply and other segments accounted for 66%, 14% and 20% of the total revenue, respectively.

The following discussion addresses the principal trends that have affected our results of operations during the Reporting Period. The following table sets out our consolidated results of operations for the years indicated:

	<b>For the year ended 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
<b>Revenue</b>	<b>1,919,423</b>	1,833,542
Cost of sales	<u>(1,240,246)</u>	<u>(1,195,618)</u>
<b>Gross profit</b>	<b>679,177</b>	637,924
Selling expenses	(13,703)	(13,140)
Administrative expenses	(151,365)	(126,082)
Research and development expenses	(7,398)	(5,719)
Net impairment losses on financial assets	(26,671)	(8,829)
Other (expenses)/income – net	(42,845)	86,512
Other losses	<u>(7,671)</u>	<u>(974)</u>
<b>Operating profit</b>	<b><u>429,524</u></b>	<u>569,692</u>
Finance income	71,789	61,408
Finance costs	<u>(85,520)</u>	<u>(192,709)</u>
Finance costs – net	(13,731)	(131,301)
Share of results of associates	<u>(312)</u>	<u>(241)</u>
<b>Profit before tax</b>	<b>415,481</b>	438,150
Income tax expenses	<u>(65,053)</u>	<u>(68,072)</u>
<b>Profit for the year</b>	<b>350,428</b>	370,078
Other comprehensive income	<u>13,290</u>	<u>871</u>
<b>Total comprehensive income for the year</b>	<b><u><u>363,718</u></u></b>	<b><u><u>370,949</u></u></b>

**a. Revenue**

Our revenue increased by RMB85.9 million, or 4.7%, to RMB1,919.4 million for the year ended 31 December 2020 from RMB1,833.5 million for the year ended 31 December 2019, primarily due to:

- Our revenue from wastewater treatment business increased by RMB62.7 million or 5.2% from RMB1,213.8 million for the year ended 31 December 2019 to RMB1,276.5 million for the year ended 31 December 2020. In particular, wastewater treatment operating income increased by RMB86.4 million, which was mainly due to the change in value added tax rate and the increase in wastewater treatment volume; the construction income decreased by approximately RMB35.2 million, which was mainly due to the decrease in investment for the Environmental Protection Project of Haitou Village of Qingshuihai Nature Reserve in Xundian County and other projects as compared to 2019; and the finance income increased by approximately RMB11.5 million.
- Our revenue from water supply segment decreased by RMB43.9 million or 14.4% from RMB304.9 million for the year ended 31 December 2019 to RMB261.0 million for the year ended 31 December 2020, which was mainly due to the decrease in construction service income of RMB30.1 million as compared to 2019 resulting from the fact that the BT Project of Reclaimed Water Utilisation and Greening Improvement of Xundian County Park and Part of the Roads entered the repurchase period.
- Our revenue from other segments increased by RMB67.1 million or 21.3% from RMB314.9 million for the year ended 31 December 2019 to RMB382.0 million for the year ended 31 December 2020. The management service income increased by approximately RMB51.0 million resulting from the increase in business volume of entrusted management services provided by the Company in 2020; the construction income increased by approximately RMB49.4 million resulting from the continuous construction of BT projects such as the Project of Reconstruction and Expansion of Yijiu Road in Jiuxiang Tourism Town of Yiliang County. The thermal power income decreased by approximately RMB32.9 million resulting from the decrease in demand for electricity from the nearby customers of Liuyang Hongyu Thermal Power Co., Ltd. (“**Hongyu Thermal Power**”) who were affected by the pandemic during the first quarter of 2020.

**b. Cost of sales**

Our cost of sales increased by RMB44.6 million, or 3.7%, to RMB1,240.2 million for the year ended 31 December 2020, from RMB1,195.6 million for the year ended 31 December 2019. Details are as follows:

- Our cost of sales for wastewater treatment segment increased by RMB18.5 million, or 2.6%, to RMB718.2 million for the year ended 31 December 2020, from RMB699.7 million for the year ended 31 December 2019, which was mainly due to the increase in wastewater treatment volume during the Reporting Period.
- Our cost of sales for water supply segment decreased by RMB39.6 million, or 16.0%, to RMB207.6 million for the year ended 31 December 2020, from RMB247.2 million for the year ended 31 December 2019, which was mainly due to the decrease in construction cost resulting from the decrease in water supply construction business of the Company.
- Our cost of sales for other segments increased by RMB65.8 million, or 26.5%, to RMB314.5 million for the year ended 31 December 2020, from RMB248.7 million for the year ended 31 December 2019. In particular, the entrusted management costs increased by approximately RMB32.0 million resulting from the increase in business volume of entrusted management services; the construction cost increased by approximately RMB46.7 million resulting from the continuous construction of BT projects such as the Project of Reconstruction and Expansion of Yijiu Road in Jiuxiang Tourism Town of Yiliang County. In addition, the thermal power cost decreased by approximately RMB11.5 million resulting from the decrease in demand for electricity from the nearby customers of Hongyu Thermal Power who were affected by the pandemic during the first quarter of 2020.

**c. Gross margin**

Our gross profit increased by RMB41.3 million, or 6.5%, to RMB679.2 million for the year ended 31 December 2020, from RMB637.9 million for the year ended 31 December 2019, which was mainly due to the increase in gross profit from wastewater treatment segment of RMB44.2 million, decrease in gross profit from water supply segment of RMB4.2 million and increase in gross profit from other segments of RMB1.3 million.

Our gross margin increased by 0.6% from 34.8% for the year ended 31 December 2019 to 35.4% for the year ended 31 December 2020, which was mainly due to the increase in gross margin of wastewater treatment segment and water supply segment, partially offset by the decrease in gross margin of other segments.

- Our gross profit from wastewater treatment segment increased by RMB44.2 million, or 8.6%, to RMB558.3 million for the year ended 31 December 2020, from RMB514.1 million for the year ended 31 December 2019. Our segment gross margin increased by 1.3% from 42.4% for the year ended 31 December 2019 to 43.7% for the year ended 31 December 2020, which was mainly due to the higher gross margin of the wastewater service of Zhaotong Dianchi Water Treatment Co., Ltd. (“**Zhaotong Water**”) during the current period, and the increase in finance income resulting from the official commercial operation of the Zhaotong Central City Second Sewage Treatment Plant and Dongchuan District Sewage Treatment Plant.
- Our gross profit from water supply segment decreased by RMB4.2 million, or 7.3%, to RMB53.4 million for the year ended 31 December 2020, from RMB57.6 million for the year ended 31 December 2019. Our segment gross margin increased by 1.6% from 18.9% for the year ended 31 December 2019 to 20.5% for the year ended 31 December 2020.
- Our gross profit from other segments increased by RMB1.3 million, or 2.0%, to RMB67.5 million for the year ended 31 December 2020, from RMB66.2 million for the year ended 31 December 2019. Our segment gross margin decreased by 3.3% from 21.0% for the year ended 31 December 2019 to 17.7% for the year ended 31 December 2020, which was mainly due to the lower overall gross margin for the year resulting from the decrease in demand for electricity from the nearby customers of Hongyu Thermal Power who were affected by the COVID-19 pandemic during the first quarter of 2020; and the lower gross margin of construction service due to the fact that BT projects such as the Project of Reconstruction and Expansion of Yijiu Road in Jiuxiang Tourism Town of Yiliang County were at the construction stage.

**d. Selling expenses**

Our selling expenses increased by RMB0.6 million, or 4.6%, to RMB13.7 million for the year ended 31 December 2020, from RMB13.1 million for the year ended 31 December 2019.

**e. Administrative expenses**

Administrative expenses increased by RMB25.3 million, or 20.1%, to RMB151.4 million for the year ended 31 December 2020, from RMB126.1 million for the year ended 31 December 2019, which was mainly due to the increase in benefit expense for administrative employees of RMB18.4 million and increase in depreciation and rental expense of RMB5.4 million.

**f. Research and development expenses**

Research and development expenses increased by RMB1.7 million, or 29.8%, to RMB7.4 million for the year ended 31 December 2020, from RMB5.7 million for the year ended 31 December 2019.

**g. Net impairment losses on financial assets**

Impairment losses on financial assets increased by RMB17.9 million from RMB8.8 million for the year ended 31 December 2019 to RMB26.7 million for the year ended 31 December 2020, which was mainly due to the increase in provision for losses that need to be recognised for trade receivables and amounts due from customers for construction contracts and an impairment loss of RMB26.7 million was provided for financial assets during the Reporting Period.

**h. Other (expenses)/income – net**

Our other (expenses)/income – net decreased by RMB129.3 million, or 149.5%, to other expenses of RMB42.8 million for the year ended 31 December 2020, from other income of RMB86.5 million for the year ended 31 December 2019, which was mainly due to the fact that the Company entered into the RMB foreign exchange currency swap transaction confirmation agreement with Hang Seng Bank to hedge the foreign exchange fluctuation risk arising from the foreign currency borrowings obtained from international syndicates in March to June 2019 (with principal amounts of US\$170,000,000 and HK\$1,015,000,000, respectively), and in 2020, the change in fair value of the assets under such agreement incurred losses of RMB130.9 million (the exchange gain of RMB131.7 million for the same period from the corresponding foreign liabilities of such agreement due to foreign exchange fluctuation was recognised in finance cost for the period).

**i. Other losses**

Our other losses increased to other losses of RMB7.7 million for the year ended 31 December 2020, from other losses of RMB1.0 million for the year ended 31 December 2019, which was mainly attributable to the penalty of RMB6.6 million payable by Leshan Debei'ao Water Treatment Co., Ltd. for breach of construction contract in 2020.

**j. Operating profit**

As a result of the foregoing factors, our operating profit decreased by RMB140.2 million, or 24.6%, to RMB429.5 million for the year ended 31 December 2020, from RMB569.7 million for the year ended 31 December 2019. Our operating margins for the years ended 31 December 2020 and 2019 were 22.4% and 31.1%, respectively.

**k. Finance income**

Our finance income increased by RMB10.4 million, or 16.9%, to RMB71.8 million for the year ended 31 December 2020, from RMB61.4 million for the year ended 31 December 2019, primarily due to an increase in interest income from borrowings to related parties.

**l. Finance costs**

Our finance costs decreased by RMB107.2 million, or 55.6%, to RMB85.5 million for the year ended 31 December 2020, from RMB192.7 million for the year ended 31 December 2019, primarily due to the exchange gain of RMB131.7 million from the foreign currency borrowings obtained by the Company from international syndicates in March to June 2019 due to change in foreign exchange in 2020 (the loss of RMB130.9 million for the same period from the fair value change of the RMB foreign exchange currency swap transaction confirmation agreement between the Company and Hang Seng Bank was recorded in other expenses).

**m. Profit before income tax**

As a result of the foregoing factors, our profit before income tax decreased by RMB22.7 million, or 5.2%, to RMB415.5 million for the year ended 31 December 2020 from RMB438.2 million for the year ended 31 December 2019.

**n. Income tax**

We incurred income tax expenses of RMB68.1 million for the year ended 31 December 2019 and RMB65.1 million for the year ended 31 December 2020 at effective tax rates of 15.5% and 15.7%, respectively. Our effective tax rate remained basically the same as last year. The effective tax rate was slightly higher than 15% due to the expiry of the preferential tax treatment for some of our wastewater treatment facilities and the fact that certain subsidiaries are not eligible for the preferential 15% corporate income tax rate under the “Western Development Policy”.

***o. Total comprehensive income***

As a result of the foregoing factors, our total comprehensive income decreased by RMB7.2 million, or 1.9%, to RMB363.7 million for the year ended 31 December 2020 from RMB370.9 million for the year ended 31 December 2019.

**2. Liquidity and Capital Resources**

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

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

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Net cash used in operating activities	<b>(613,467)</b>	(172,812)
Net cash used in investing activities	<b>(290,733)</b>	(1,131,514)
Net cash from financing activities	<b>387,547</b>	1,500,966
Net (decrease)/increase in cash and cash equivalents	<b>(516,653)</b>	196,640
Effect of foreign exchange rates	<b>(23,606)</b>	13,845
Cash and cash equivalents at the beginning of the reporting period	<b>1,290,199</b>	1,079,714
Cash and cash equivalents at the end of the reporting period	<b>749,940</b>	1,290,199

***a. Net cash used in operating activities***

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

For the year ended 31 December 2020, our net cash used in operating activities was RMB613.5 million, primarily comprising cash used in operations amounting to RMB339.3 million, income tax paid amounting to RMB57.1 million and interest paid amounting to RMB217.0 million. The net cash used in operating activities in 2020 increased by RMB440.7 million compared with that of 2019, primarily due to the increase in investment for construction of concession projects during the current period as compared to the previous period.



**b. *Net cash used in investing activities***

Our net cash used in investing activities has principally been used to purchase property, plant and equipment, loans to related parties and other investments.

As of 31 December 2020, the net cash used in investing activities amounted to RMB290.7 million, primarily comprising the purchase of property, plant and equipment amounting to RMB186.8 million and net cash outflow from acquisition of asset management products of Bosera Capital amounting to RMB100.0 million. The net cash used in investing activities in 2020 decreased by RMB840.8 million compared with that of 2019, primarily due to the net increase in loans granted to related parties of RMB1,000.0 million in previous year.

**c. *Net cash generated from financing activities***

Our net cash generated from financing activities primarily represents borrowings.

Our net cash generated from financing activities changed from net inflow of RMB1,501.0 million for the year ended 31 December 2019 to net inflow of RMB387.5 million for the year ended 31 December 2020, which was primarily attributable to a decrease in borrowings in 2020 compared with 2019.

### 3. Working Capital

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Current assets</b>		
Receivables under service concession arrangements	6,562	7,548
Inventories	11,759	22,636
Amounts due from customers for construction contracts	26,954	27,578
Financial assets at fair value through profit or loss	–	246,327
Financial assets at amortised cost	300,000	–
Trade and other receivables	2,391,034	2,225,415
Cash and bank balances	749,940	1,290,199
Restricted cash	7,990	67,966
<b>Total current assets</b>	<b>3,494,239</b>	<b>3,887,669</b>
<b>Current liabilities</b>		
Trade and other payables	699,096	486,848
Income tax payables	96,091	75,273
Borrowings	1,884,963	701,320
Lease liabilities	1,168	3,786
Contract liabilities	45,493	7,238
Financial liabilities at fair value through profit or loss	84,613	–
<b>Total current liabilities</b>	<b>2,811,424</b>	<b>1,274,465</b>
<b>Net current assets</b>	<b>682,815</b>	<b>2,613,204</b>

We recorded net current assets of RMB682.8 million as of 31 December 2020 and net current assets of RMB2,613.2 million as of 31 December 2019. The decrease in our net current assets was mainly attributable to the increase in unsecured short-term borrowings and payables to local governments and third parties.

**a. *Receivables under service concession arrangements***

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

Our receivables under service concession arrangements increased by RMB1,037.7 million or 74.7% from RMB1,389.5 million on 31 December 2019 to RMB2,427.2 million on 31 December 2020, primarily because our receivables under service concession arrangements that were classified as non-current assets increased by RMB1,038.6 million or 75.2% year-on-year from 2019 to 2020. The increase was mainly due to the increase in receivables under service concession arrangements of RMB521.9 million resulting from the fact that we obtained the concession right of Zhaotong Water and continued the construction of Zhaotong Central City Second Sewage Treatment Plant; recognition of receivables of RMB46.7 million based on the construction progress of the Fanchang County Second Sewage Treatment Plant Concession Project, recognition of receivables of RMB48.6 million based on the construction progress of the Project of Comprehensive Improvement of Water Environment and Ecological Recharge with Reclaimed Water for Dongda River – Zhong River in Jinning District; and recognition of receivables of RMB41.8 million based on the construction progress of the Yiliang County Rural Sewage Treatment Plant and Ancillary Facility Construction Project (Phase I).

**b. Inventories**

Our total inventory balance decreased by RMB10.8 million, or 47.8%, to RMB11.8 million as of 31 December 2020 from RMB22.6 million as of 31 December 2019. The balance of raw materials increased by RMB0.7 million, or 14.3%, to RMB5.6 million as of 31 December 2020 from RMB4.9 million as of 31 December 2019. Coal decreased by RMB10.1 million, or 88.6%, to RMB1.3 million as of 31 December 2020 from RMB11.4 million as of 31 December 2019. Parts and components decreased by RMB1.4 million, or 22.2%, to RMB4.9 million as of 31 December 2020 from RMB6.3 million as of 31 December 2019.

Our inventory turnover days decreased from 5.4 days on 31 December 2019 to 5.1 days on 31 December 2020 (calculated as the average inventories for the relevant year divided by the cost of sales recognised for the relevant year, multiplied by 366 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2019 and 2020).

**c. Amounts due from customers for construction contracts**

The portion of amounts due from customers for construction contracts due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our total amounts due from customers for construction contracts increased by RMB95.9 million, or 17.6%, to RMB639.7 million as of 31 December 2020 from RMB543.8 million as of 31 December 2019, primarily due to the investment in new construction for BT projects such as the Urban Construction Demonstration Project of Improvement of Dark and Odorous Water in Urban Area of Zhaotong, the Environmental Protection Project of Haitou Village of Qingshuihai Nature Reserve in Xundian County and the Project of Construction of Municipal Infrastructure and Ancillary Facilities for Environmental Protection of Jiuxiang Tourism Town of Yiliang County as well as the normal operation of existing construction projects.

**d. Trade and other receivables**

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

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Trade receivables:</b>		
– Third parties	<b>83,918</b>	80,165
– Related parties	<b>85,983</b>	123,168
– Local government	<b>990,790</b>	780,419
– Loss allowance	<b>(35,312)</b>	(16,294)
	<u><b>1,125,379</b></u>	<u>967,458</u>
<b>Trade receivables – net</b>		
<b>Other receivables:</b>		
– Third parties	<b>128,176</b>	57,597
– Related parties	<b>1,029,152</b>	1,026,202
– Local government	<b>53,319</b>	47,057
– Loss allowance	<b>(5,533)</b>	(3,472)
	<u><b>1,205,114</b></u>	<u>1,127,384</u>
<b>Other receivables – net</b>		
<b>Prepayments:</b>		
– Local government	–	3,587
– Others	<b>60,545</b>	126,990
– Impairment loss	<b>(4)</b>	(4)
	<u><b>60,541</b></u>	<u>130,573</u>
<b>Prepayments – net</b>		
<b>Trade and other receivables – net</b>	<u><b>2,391,034</b></u>	<u>2,225,415</u>

Our net trade and other receivables increased by RMB165.6 million, or 7.4%, to RMB2,391.0 million as of 31 December 2020 from RMB2,225.4 million as of 31 December 2019, reflecting in (i) an increase in trade receivables due from local government by RMB210.4 million, or 27.0%, to RMB990.8 million as of 31 December 2020 from RMB780.4 million as of 31 December 2019; (ii) a decrease in amounts due from related parties by RMB37.2 million, or 30.2%, to RMB86.0 million as of 31 December 2020 from RMB123.2 million as of 31 December 2019; (iii) an increase in amounts due from other third parties by RMB70.6 million, or 122.6%, to RMB128.2 million as of 31 December 2020 from RMB57.6 million as of 31 December 2019, mainly attributable to the increase in bills receivable from Hongyu Thermal Power, our subsidiary, of RMB11.6 million, and increase in deductible input tax of RMB54.4 million for the year; and (iv) decrease in total prepayment of RMB70.1 million in 2020, mainly including the receipt and settlement of invoices for the forestry substrate soil resource utilisation project and other projects.

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
– Within one year	<b>971,116</b>	935,027
– Over one year and within two years	<b>175,053</b>	37,300
– Over two years	<b>14,522</b>	11,425
	<b><u>1,160,691</u></b>	<u>983,752</u>

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
– Within one year	<b>971,116</b>	935,027
– Over one year and within two years	<b>175,053</b>	37,300
– Over two years	<b>14,522</b>	11,425
	<b><u>1,160,691</u></b>	<u>983,752</u>

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

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b><i>Days</i></b>	<i>Days</i>
Trade receivable turnover days <sup>(1)</sup>	<b>199.5</b>	155.4
Trade and other receivable turnover days <sup>(2)</sup>	<b>440.1</b>	315.3

*Notes:*

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 366 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2019 and 2020.
- (2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period and multiplied by 366 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2019 and 2020.

e. **Trade and other payables/Contract liabilities**

*Trade and other payables*

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

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Trade payables	<b>327,203</b>	150,971
Other payables	<b>148,067</b>	146,012
Consideration payable for acquisition of subsidiaries	<b>53,057</b>	21,209
Staff salaries and welfare payables	<b>42,543</b>	42,285
Payables on acquisition of property, plant and equipment	<b>48,566</b>	46,207
Payables on acquisition of land use rights from related parties	<b>58,194</b>	58,194
Interest payables	<b>5,929</b>	4,586
Accrued taxes other than income tax	<b>15,537</b>	17,384
	<hr/>	<hr/>
	<b>699,096</b>	486,848
	<hr/> <hr/>	<hr/> <hr/>



*Contract liabilities*

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Contract liabilities		
– local government	<b>30,793</b>	–
– third parties	<b>14,700</b>	7,238
	<u><b>45,493</b></u>	<u>7,238</u>

Our trade and other payables increased by RMB212.3 million, or 43.6%, to RMB699.1 million as of 31 December 2020 from RMB486.8 million as of 31 December 2019, which was mainly due to the project payables increased in 2020.

On each balance sheet date, the ageing analysis of the total trade payables based on sales invoices is as follows:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
– Within one year	<b>214,562</b>	137,309
– Over one year and within two years	<b>100,354</b>	13,662
– Over two years	<b>12,287</b>	–
	<u><b>327,203</b></u>	<u>150,971</u>

As at 31 December 2019 and 2020, all trade and other payables of the Group were not required to pay interests, and their fair values approximated their carrying amounts due to their short maturities.

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>Days</b>	<b>Days</b>
Trade and other payables turnover days <sup>(1)</sup>	<b>175.0</b>	132.2
Trade payables turnover days <sup>(2)</sup>	<b>119.0</b>	106.8

Notes:

- (1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period and multiplied by 366 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2019 and 2020.
- (2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 366 days for the years ended 31 December 2019 and 2020.

#### 4. Indebtedness

##### a. Borrowings

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
<b>Non-current portion</b>		
Unsecured long-term borrowings	<b>850,000</b>	340,000
Secured long-term borrowings	<b>2,194,263</b>	2,828,418
Corporate bonds	<b>37,703</b>	696,629
	<u>3,081,966</u>	<u>3,865,047</u>
<b>Total non-current borrowings</b>		
<b>Current portion</b>		
Unsecured short-term borrowings	<b>1,390,000</b>	615,000
Secured short-term borrowings	<b>494,963</b>	86,320
	<u>1,884,963</u>	<u>701,320</u>
<b>Total current borrowings</b>	<b>1,884,963</b>	701,320
	<u>4,966,929</u>	<u>4,566,367</u>
<b>Total borrowings</b>	<b>4,966,929</b>	4,566,367

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
Weighted average effective interest rates	<b>5.89%</b>	4.83%
	<u>5.89%</u>	<u>4.83%</u>

As of 31 December 2019 and 2020, our total borrowings amounted to RMB4,566.4 million and RMB4,966.9 million, respectively, mainly due to the fact that to meet the relatively significant capital requirements for project construction, the Company increased the bank borrowings of approximately RMB1,285.0 million this year. Among our indebtedness, borrowings amounting to RMB461.2 million and RMB363.9 million as of 31 December 2019 and 2020, respectively, were secured by our property, plant and equipment. In addition to the above borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on 25 December 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand an early redemption of outstanding corporate bonds.

In 2020, the Company has repurchased corporate bonds with a nominal value of RMB660.0 million, and reduced the coupon rate of the bonds to 4.15%, which will remain unchanged in the sixth and seventh years of lifetime (from 25 December 2020 to 24 December 2022).

As of 31 December 2020, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us or had demanded any early repayment.

As of 31 December 2020, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As of 31 December 2020, we had not received any requests for early repayment of the principal or interests under any of our loan agreements.

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
On demand or within 1 year	<b>1,883,854</b>	701,320
Between 1 and 2 years	<b>2,431,242</b>	241,670
Between 2 and 5 years	<b>626,633</b>	3,623,377
Later than 5 years	<b>25,200</b>	–
	<b><u>4,966,929</u></b>	<u>4,566,367</u>

As of 31 December 2019 and 2020, our net gearing ratios were 43.9% and 49.6%, respectively. Our net gearing ratios as at 31 December 2020 increased as compared with 31 December 2019 primarily due to an increase in closing balance of borrowings by RMB400.5 million in 2020.

Except as disclosed above, as of the 31 December 2020, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**b. Commitments**

*(a) Capital commitments*

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Property, plant and equipment	<u><b>54,099</b></u>	<u>28,609</u>

*(b) Operating lease commitments – the Group as lessee*

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

	<b>As at 31 December 2020 RMB'000</b>
Within 1 year	<u><b>1,168</b></u>

Effective from 1 January 2019, the Group has recognised right-of-use assets for these leases.

(c) *Concession projects and construction projects contracted at each balance sheet date, but not yet incurred are as follows:*

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
Concession projects and construction projects	<b>1,521,290</b>	4,018,446

**c. *Capital expenditure***

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenses were RMB264.7 million and RMB376.4 million for the years ended 31 December 2019 and 2020, respectively. We expect to fund our contractual commitments and capital expenditures principally through net cash generated from our operating activities, proceeds from borrowings and the proceeds we receive from the global offering of H shares.

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<i>RMB'000</i>
Wastewater treatment	<b>355,037</b>	205,189
Water supply	<b>9,435</b>	34,040
Others	<b>11,944</b>	25,479
Total	<b>376,416</b>	264,708

Based on our current business plan, we expect to incur capital expenditure amounting to RMB401.2 million for the year ending 31 December 2021. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

**5. Off-balance sheet arrangements**

Save as disclosed in this announcement, as of 31 December 2020 we did not have any outstanding off-balance sheet guarantees, commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. The Group's policy does not participate in and invest in any financial products that are speculative and/or have significant risks. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**6. Initial public offering and use of proceeds from initial public offering**

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

As of 31 December 2020, approximately RMB927.4 million, accounting for 86.5% of RMB1,072.3 million of net proceeds from the Initial Public Offering, has been used in accordance with the use as stated in the paragraph headed “Future Plans and Use of Proceeds” in the Prospectus. The use of proceeds is as follows:

Business strategies as stated in the Prospectus	Percentage of total net proceeds from the Initial Public Offering (as set out in the Prospectus)	Planned use of net proceeds from the Initial Public Offering (as set out in the Prospectus)	Actual use of net proceeds from the Initial Public Offering for the year ended 31 December 2020	Actual	Unused net
				use of net proceeds from the Initial Public Offering Listing Date to the period ended 31 December 2020	proceeds from the Initial Public Offering from the Listing Date to the period ended 31 December 2020
				RMB million	RMB million
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	82.6	317.6	57.7
To acquire TOT/TOO wastewater treatment plants and running water supply projects	35%	375.3	–	289.7	85.6
Repayment of bank borrowings	20%	214.5	–	212.9	1.6
To supplement working capital and for general corporate purposes	10%	107.2	55.8	107.2	–
<b>Total</b>	<b>100%</b>	<b>1,072.3</b>	<b>138.4</b>	<b>927.4</b>	<b>144.9</b>

As of 31 December 2020, the unused net proceeds from the Initial Public Offering for each of the business strategies as stated in the above table have been placed as deposits in licensed banks of the PRC which will be used in accordance with the progress of the Company’s investment projects and are expected to be used up within 1 year (i.e. before 2022). The business objectives, future plans and planned use of the proceeds as stated in the Prospectus were based on the best estimation and assumptions of future market conditions and industry developments made by the Company at the time of preparing the Prospectus, while the proceeds from the Initial Public Offering were used in accordance with the business of the Group and the actual development of the relevant industry.

The net proceeds from the Initial Public Offering were used and expected to be used according to the intentions previously disclosed in the Prospectus. As of 31 December 2020, there was no material change or material delay in the use of proceeds of the Company.

## **7. Exchange rate risk and management**

The Group still retains some foreign currency funds, mainly Hong Kong dollars and US dollars. The Group borrowed foreign currency loans with international syndicates from March to June 2019, with principals of USD170,000,000 and HKD1,015,000,000 respectively. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. In December 2019, the Group entered into a confirmation of RMB foreign exchange currency swap transactions with Hang Seng Bank and the agreement fixed the exchange rate at the time of loan repayment and interest payment which was used to hedge the risk of foreign exchange fluctuations when repaying foreign currency borrowings and foreign currency interest. Details are as follows:

Hang Seng Bank pays floating interest on swap agreements and the fixed interest payer is the Group. Before the Group pays the foreign currency principal and interest of each international syndicate, Hang Seng Bank will pay the equivalent currency into the Company's account. The Company can use the foreign currency to pay the principal and interest. At the same time, when the Company pays RMB to Hang Seng Bank, the interest rate is fixed. The nominal principal for calculating the interest is calculated by multiplying the principal in the syndicated loan agreement by the fixed exchange rate locked by the agreement, actually using a fixed cost in exchange for the foreign currency to be paid and turning unknown risks of exchange rate changes into fixed interest expense costs. For the year of 2020, loss on change in fair value of the swap agreement was RMB130,940,000 and exchange gain from syndicated foreign currency borrowings was RMB131,734,000.



## 8. Employees and remuneration policies

### *Relationship with Employees*

As of 31 December 2020, we had 1,360 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2020:

<b>Function</b>	<b>Number</b>
Management and Administration	166
Finance	39
Research and Development	85
Quality Monitoring	232
Marketing	17
Operations	779
Construction and Maintenance	<u>42</u>
<b>Total</b>	<b><u><u>1,360</u></u></b>

We recruit our employees on the open market. Compensation for our employees includes basic wages, performance-based wages, bonuses and other staff benefits. For the years ended 31 December 2019 and 2020, our employee benefits amounted to approximately RMB161.1 million and RMB177.9 million, respectively.

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

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

## 9. Contingent liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities.

## 10. Material charges on assets

There were no material charges on the Group's assets during the Reporting Period.

## 11. Major investment and acquisition

On 27 December 2019, the Company (as the asset entrustor) entered into an asset management agreement with Bosera Capital Management Co., Ltd. (“**Bosera Capital**”) (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited (“**China Merchants Bank**”) (as the asset trustee) on 27 December 2019 in relation to the investment and management of the entrusted assets, pursuant to which the Company agreed to entrust an amount of up to RMB400 million as the Entrusted Assets for the investment in a Single Asset Management Plan issued by Kunming Industrial Development and Investment Co., Ltd. (“**IDI**”). IDI is a wholly state-owned company, which is principally engaged in the integration of state-owned enterprise shareholding and management and operation of state-owned assets. It is an existing shareholder of the Company directly or indirectly holding 59,000,000 H Shares and 2,620,449 Domestic Shares, representing 5.99% of the total issued share capital of the Company as at the date of this announcement. The investment in Single Asset Management Plan included certain accounts receivables and other non-standardised credit assets transferred from IDI. The Company invested RMB200 million to the Single Asset Management Plan. For details, please refer to the announcement of the Company dated 27 December 2019.

During the Reporting Period, the above asset management agreement has been early terminated, and the Company has recovered all the entrusted amount and the investment income derived therefrom pursuant to the contract terms.

On 11 September 2020, the Company (as the asset entrustor) entered into an asset management agreement with Bosera Capital (as the asset manager) and China Merchants Bank (as the asset trustee) in relation to the investment and management of the entrusted assets. Pursuant to the agreement, the Company agreed to entrust an amount of RMB300 million as the entrusted assets for investment in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. (“**KADI**”). KADI is a wholly state-owned company, which is principally engaged in investment and construction of agricultural industrialisation projects, investment and construction of agricultural water conservancy and irrigation projects, land consolidation, development and investment, development and investment in elderly care and funeral industries and other agricultural and livelihood service industries, and is a third party independent of the Company. The Company invested RMB300 million in the asset management plan (2019: RMB200 million). For details, please refer to the announcement of the Company dated 11 September 2020.

These investments recorded realised gains of approximately RMB5.7 million during the year. By entering into the asset management agreement in accordance therewith, the Company intends to increase the rate of return of its cash and cash equivalents which can improve the Company’s investment income and profit earnings.

The Company's investments mainly focus on its main business and relevant environmental protection industries in the upstream and downstream. On the basis of prioritising the investments in the main business and related industries, and in accordance with the progress of project implementation, the Company will manage idle funds, if any, to improve the efficiency of capital utilisation on the premise of keeping the risks under control.

Save as disclosed above, the Company had no plans of major investments or capital and asset acquisition as of 31 December 2020.

## 12. Loans to Certain Entities

The Company entered into two entrusted loan contracts with Kunming Bus Group Co., Ltd. ("**Kunming Bus**") and Yunnan Branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司雲南省分行) ("**Bank of Communications**") on 23 January 2020 and 13 February 2020 respectively, pursuant to which the Company entrusted Bank of Communications to grant loans of RMB60 million and RMB240 million respectively to Kunming Bus with an annual interest rate of 8.5%. As of the date of this announcement, the loans under these two entrusted loan contracts have been repaid pursuant to the contracts. For details, please refer to the announcements of the Company dated 13 February and 14 February 2020.

The Company entered into an entrusted loan contract with Kunming Development Investment Group Co., Ltd. ("**Kunming DIG**") and Bank of Communications on 2 June 2020, pursuant to which the Company entrusted Bank of Communications to provide a RMB350 million loan to Kunming DIG, with an annual interest rate of 7.5%. The loan will become due on 3 June 2021. For details, please refer to the announcement of the Company dated 2 June 2020.

The Company entered into an entrusted loan contract with Kunming Xindu Investment Co., Ltd. ("**Xindu Investment**") and Kunming Dianlong Sub-branch of China Construction Bank Corporation ("**China Construction Bank**") on 4 September 2020, pursuant to which the Company entrusted China Construction Bank to provide a RMB350 million loan to Xindu Investment, with an annual interest rate of 7%. The loan will become due on 8 September 2021. For details, please refer to the announcement of the Company dated 4 September 2020.

According to the knowledge of the Company, Kunming Bus, Kunming DIG and Xindu Investment are all controlled or held by Kunming SASAC, and Kunming DIG holds 6.818% equity interest of Xindu Investment. Saved as disclosed above, Kunming Bus, Xindu Investment and Kunming DIG are not related to each other, and these companies are also independent of the Group or the connected persons of the Group.

On the basis of prioritising the investments in the main business and related industries, and in accordance with the progress of project implementation, the Company will manage idle funds, if any, to improve the efficiency of capital utilisation on the premise of keeping the risks under control. When selecting counterparties, we will assess the risk of capital recovery based on the counterparties' operating conditions and past cooperation, and will continuously monitor whether there is any material adverse impact on the counterparties' operations so that we can take timely measures to ensure the safety of the Company's capital.

### **III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the shareholders and protecting their interests. The Company has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) and Corporate Governance Report as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the CG Code and has set up a series of corporate governance policies. The directors of the Company believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the CG Code except for provision A.4.2.

Under code provision A.4.2, every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years. As of the end of the Reporting Period, the terms of office of the first Board and the board of supervisors of the Company have expired for 3 years, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers the continuity of the Board and the board of supervisors of the Company. Under the relevant provisions of the articles of association of the Company, if, upon the expiry of a director’s term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the articles of association of the Company. Therefore, the Board considers that deviations from provision A.4.2 of the Corporate Governance Code will not have a significant impact on the Group’s operation as a whole and the Company will complete the relevant work as soon as possible.

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

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

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

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

We issued corporate bonds with par value of RMB700.0 million for a term of seven years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand for an early redemption of corporate bonds outstanding. The proceeds from the issuance of the bonds will all be used in four projects, namely the second wastewater treatment plant in Yiliang County and the supporting pipe network project, the construction of Yunnan Water Quality Monitoring Center and the supporting wastewater treatment plant management building, the acquisition of Luolonghe and Laoyuhe Wastewater Treatment Plants (including reclaimed water plant) and the acquisition of the tenth wastewater treatment plant in Kunming City.

In 2020, the Company has repurchased the corporate bonds with a nominal value of RMB660.0 million, and reduced the coupon rate of the bonds to 4.15%, which will remain unchanged in the sixth and seventh years of its lifetime (from 25 December 2020 to 24 December 2021).

Save as disclosed above, neither the Company nor any of its subsidiaries had made any other purchase, sale or redemption of the Company's listed securities during the Reporting Period.

## VI. AUDIT COMMITTEE

The Audit Committee is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company. The Audit Committee has reviewed the audited annual results for the year ended 31 December 2020 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

## VII. FINAL DIVIDEND

The Board proposes to distribute a final cash dividend (the “**2020 Final Dividend**”) of RMB0.120 per share (tax inclusive), totalling RMB123,493,320 (tax inclusive) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 29 June 2021, subject to the approval by the shareholders of the Company at the 2020 annual general meeting (the “**2020 Annual General Meeting**”) intended to be held by the Company on Friday, 18 June 2021. The dividend of domestic shareholders shall be declared and paid in RMB while the dividend of H shareholders shall be declared in RMB but paid in Hong Kong dollars, with the exchange rate being subject to the average exchange rate published by the People's Bank of China within one week prior to the 2020 Annual General Meeting. The expected 2020 Final Dividend distribution date is Thursday, 5 August 2021.

The proposal regarding the distribution of 2020 Final Dividend shall be confirmed subject to the approval by shareholders at the 2020 Annual General Meeting.

According to the provisions of the “Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas H-share Holders (Non-resident Enterprise Shareholders) from Chinese Resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》)” (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, an enterprise income tax at the rate of 10% shall be levied on dividends paid in or after 2008 by Chinese resident enterprises to overseas H shareholders that are non-resident enterprises.

Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organisations, will be treated as being held by nonresident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax. If H shareholders intend to change its shareholder status, please enquire about the relevant procedures with your agents or transferee agent. The Company will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax and individual income tax on behalf of the relevant shareholders based on the register of members for H shares of the Company as at the dividend registration date. The Company assumes no responsibility and will not entertain any claims arising from any failure to timely determine, or inaccurate determination of, the status of the shareholders or any dispute over the arrangement of withholding and paying enterprise tax and individual income tax on behalf of such shareholders. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the H shares of the Company.

If the individual H shareholders who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. Should the individual H shareholders are residents of the countries which had an agreed tax rate of less than 10% with China under the relevant tax treaties, the Company shall withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. If the relevant individual H shareholders wish to apply for a refund of the additional amount of tax withheld and paid, the Company can assist the relevant H shareholders to handle the application for the underlying preferential tax benefits pursuant to tax treaties. If the individual H shareholders who are residents of the countries which had an agreed tax rate of higher than 10% but lower than 20% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at the actual rate specified under relevant tax treaties. In the case that the individual holders of H shares are residents of the countries which had an agreed tax rate of 20% with China under the tax treaties, or which has not entered into any tax treaties with China, or otherwise, the Company shall withhold and pay the individual income tax on behalf of the relevant H shareholders at a rate of 20%.

## VIII. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining H shareholders' entitlement to attend the 2020 Annual General Meeting, the H share register of shareholders of the Company will be closed from Friday, 28 May 2021 to Friday, 18 June 2021 (both days inclusive), during which no transfer of shares will be registered. In order to attend the 2020 Annual General Meeting, H share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 27 May 2021. The H share shareholders of the Company whose names appear on the Company's register of shareholders for H shares as at Friday, 18 June 2021 are entitled to attend the 2020 Annual General Meeting.

In order to determine the shareholders who are entitled to receive the 2020 Final Dividend subject to the approval by the shareholders of the Company at the 2020 Annual General Meeting, the register of members of the Company will be closed from Thursday, 24 June 2021 to Tuesday, 29 June 2021 (both days inclusive). To be eligible to receive the final dividend for the year ended 31 December 2020 (subject to the approval of the Company's shareholders), unregistered holders of H shares of the Company shall lodge relevant share transfer documents with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 23 June 2021.

## IX. PUBLICATION OF ANNUAL REPORT

The annual report for the year ended 31 December 2020 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.kmcdwt.com>).

By order of the Board  
**Kunming Dianchi Water Treatment Co., Ltd.**  
**Guo Yumei**  
*Chairperson*

Kunming, the PRC, 26 March 2021

*As of the date of this announcement, the Board comprises Ms. Guo Yumei, Mr. Chen Changyong and Mr. Luo Yun, as executive Directors; Ms. Song Hong, Ms. Ren Na and Ms. Yu Yanbo, as non-executive Directors; and Mr. Yin Xiaobing, Mr. He Xifeng and Mr. Johnson Wan, as independent non-executive Directors.*