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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 2021

FINANCIAL SUMMARY

For the year ended 31 December 2021, the Group's:

- revenue amounted to approximately RMB2,317.7 million, representing an increase of 20.8% from 2020;
- profit before tax amounted to approximately RMB396.7 million, representing a decrease of 4.5% from 2020;
- profit attributable to equity holders of the Company amounted to approximately RMB338.3 million, representing a decrease of 2.9% from 2020; and
- earnings per share amounted to approximately RMB0.33, representing a decrease of 2.9% from 2020.

The Board proposes to distribute a final cash dividend of RMB0.100 per share (tax inclusive), totalling RMB102,911,100 (tax inclusive) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Monday, 11 July 2022, subject to the approval by the shareholders of the Company at the 2021 Annual General Meeting. The expected dividend distribution date is Tuesday, 16 August 2022.

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 2021 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2020, 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 2021

	Notes	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3(a)	2,317,738	1,919,423
Cost of sales	6	<u>(1,592,956)</u>	<u>(1,240,246)</u>
Gross profit		724,782	679,177
Selling expenses	6	(13,705)	(13,703)
Administrative expenses	6	(140,477)	(151,365)
Research and development expenses	6	(7,299)	(7,398)
Net impairment losses on financial assets		(59,593)	(26,671)
Other income/(expenses) – net	5	28,025	(42,845)
Other losses	4	<u>(3,365)</u>	<u>(7,671)</u>
Operating profit		528,368	429,524
Finance income		83,705	71,789
Finance costs		<u>(213,652)</u>	<u>(85,520)</u>
Finance costs – net	7	<u>(129,947)</u>	<u>(13,731)</u>
Share of results of associates		<u>(1,728)</u>	<u>(312)</u>
Profit before tax		396,693	415,481
Income tax expenses	8	<u>(57,142)</u>	<u>(65,053)</u>
Profit for the year		339,551	350,428
Other comprehensive income			
<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>(1,219)</u>	<u>2,145</u>
		<u>(1,219)</u>	<u>13,290</u>
Total comprehensive income for the year		338,332	363,718

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

		Year ended 31 December	
		2021	2020
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
Profit attributable to:			
– Equity holders of the Company		338,278	348,547
– Non-controlling interests		1,273	1,881
		<u>339,551</u>	<u>350,428</u>
Total comprehensive income attributable to:			
– Equity holders of the Company		337,059	361,837
– Non-controlling interests		1,273	1,881
		<u>338,332</u>	<u>363,718</u>
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– Basic and diluted earnings per share	<i>9</i>	<u>0.33</u>	<u>0.34</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Non-current assets			
Investment properties	<i>11</i>	276,377	273,755
Right-of-use assets/land use rights		424,945	437,025
Property, plant and equipment		2,637,090	2,840,698
Receivables under service concession arrangements	<i>12</i>	2,732,351	2,420,630
Amounts due from customers for construction contracts	<i>13</i>	559,714	612,729
Contract assets		249,825	–
Intangible assets		313,494	329,289
Investments in associates		12,793	14,521
Deferred tax assets		84,490	73,606
		7,291,079	7,002,253
Current assets			
Receivables under service concession arrangements	<i>12</i>	5,463	6,562
Inventories		16,595	11,759
Amounts due from customers for construction contracts	<i>13</i>	22,785	26,954
Financial assets at amortised cost		294,000	300,000
Trade and other receivables	<i>14</i>	2,884,020	2,391,034
Cash and bank balances		1,504,346	749,940
Restricted funds		49,650	7,990
		4,776,859	3,494,239
Current liabilities			
Trade and other payables	<i>15</i>	678,982	699,096
Tax payables		97,494	96,091
Borrowings		4,212,914	1,884,963
Lease liabilities		–	1,168
Contract liabilities	<i>15</i>	7,505	45,493
Financial liabilities at fair value through profit or loss		110,450	84,613
		5,107,345	2,811,424
Net current (liabilities) assets		(330,486)	682,815
Total assets less current liabilities		6,960,593	7,685,068

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Deferred revenue		245,267	248,429
Borrowings		2,193,023	3,081,966
Deferred tax liabilities		86,492	82,246
		<u>2,524,782</u>	<u>3,412,641</u>
NET ASSETS		<u>4,435,811</u>	<u>4,272,427</u>
Capital and reserves			
Share capital		1,029,111	1,029,111
Other reserves		1,543,576	1,523,380
Accumulated profits		1,854,715	1,712,800
Equity attributable to equity holders of the Company		4,427,402	4,265,291
Non-controlling interests		8,409	7,136
TOTAL EQUITY		<u>4,435,811</u>	<u>4,272,427</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 2020 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 IAS 39, IFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021

Amendments to IAS 39, IFRSs 4, 7, 9 and 16: Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “**Reform**”). The amendments complement those issued in September 2019 and relate to:

- changes to contractual cash flows—a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting—a company will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and
- disclosures—a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new/revised IFRSs (Continued)

Amendments to IFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021

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 2022. The amendments do not affect lessors.

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.

Going concern

The Group had net current liabilities of approximately RMB330,486,000 at 31 December 2021. Notwithstanding the above, the Directors consider the going concern basis of preparation of the consolidated financial statements is appropriate after taking into consideration the following:

- (a) the Group is able to generate operating profits and cash inflows from current and future operating activities; and
- (b) at 31 December 2021, the Group has undrawn banking facilities of approximately RMB1,746,550,000 granted by the financial institutions.

Having regard to the cash flow projection of the Group, which are prepared assuming that the above measures are successful, the Directors are of the opinion that, in light of the measures taken to-date, together with the expected results of the other measures in progress, the Group will have sufficient funding resources to satisfy its future working capital and other financing requirements. The Directors believe that the aforementioned measures will be successful, based on the continuous efforts by the management of the Group.

However, should the above measures not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case adjustments might have to be made to reduce the carrying values of the Group's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, respectively and to provide for any further liabilities which might arise.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost basis, except for investment properties and financial liabilities at fair value through profit or loss ("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)

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 IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021⁽¹⁾</i>
Amendments to IAS 16	<i>Proceeds before Intended Use⁽²⁾</i>
Amendments to IAS 37	<i>Cost of Fulfilling a Contract⁽²⁾</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework⁽²⁾</i>
Annual Improvements to IFRSs	<i>2018–2020 Cycle⁽²⁾</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current⁽³⁾</i>
Amendments to IAS 1	<i>Disclosure of Accounting Policies⁽³⁾</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates⁽³⁾</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction⁽³⁾</i>
IFRS 17	<i>Insurance Contracts⁽³⁾</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁽⁴⁾</i>

⁽¹⁾ Effective for annual periods beginning on or after 1 April 2021

⁽²⁾ Effective for annual periods beginning on or after 1 January 2022

⁽³⁾ Effective for annual periods beginning on or after 1 January 2023

⁽⁴⁾ 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, construction 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.

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 right-of-use assets/land use rights, property, plant and equipment and intangible assets.

3. SEGMENT INFORMATION (Continued)

(a) Revenue

The revenue of the Group are set out as follows:

	For the year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	1,370,283	1,276,466
Operating services – under TOO model	919,411	872,615
Operating services – under TOT/BOT model	162,538	116,807
Construction services – under BT model	3,283	2,860
Construction services – under BOT model	193,360	209,427
Finance income	91,691	74,757
Reclaimed water supply and running water supply	191,534	260,986
Operating services of reclaimed water supply – under TOO model	35,006	23,943
Operating services of running water supply – under TOT/BOT model	11,023	6,538
Construction services – under BOT model	112,963	198,315
Finance income	32,542	32,190
Others	755,921	381,971
Management services	276,855	190,154
Transportation services	7,775	4,039
Construction services – under BT model	18,565	84,642
Construction services – under BOT model	280,241	–
Thermal production	133,494	77,671
Others	38,991	25,465
	2,317,738	1,919,423

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 2021 are presented as below:

	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	<u>1,370,283</u>	<u>191,534</u>	<u>755,921</u>	<u>2,317,738</u>
Segment gross profit	<u>610,365</u>	<u>49,812</u>	<u>64,605</u>	<u>724,782</u>
Segment profit	<u>487,391</u>	<u>22,957</u>	<u>43,857</u>	<u>554,205</u>
Fair value loss on financial liabilities at FVPL				<u>(25,837)</u>
Finance income				83,705
Finance costs				(213,652)
Share of results of associates				<u>(1,728)</u>
Profit before tax				<u><u>396,693</u></u>
Other information				
Depreciation of property, plant and equipment	(138,183)	(18,953)	(81,434)	(238,570)
Depreciation of right-of-use assets	(6,243)	(803)	(4,245)	(11,291)
Fair value gain on investment properties	–	–	2,622	2,622
Impairment loss on trade receivables	(7,768)	(8,800)	(5,018)	(21,586)
Impairment loss on receivables under service concession arrangements	(12,092)	(3,889)	–	(15,981)
Impairment loss on amounts due from customers for construction contracts	(9,865)	(4,247)	–	(14,112)
Amortisation of intangible assets	(16,719)	(923)	–	(17,642)
Capital expenditures	<u>(41,492)</u>	<u>(3,967)</u>	<u>(13,671)</u>	<u>(59,130)</u>

Segment assets and liabilities as at 31 December 2021 are presented below:

	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Segment assets	<u>8,641,125</u>	<u>1,211,764</u>	<u>2,117,766</u>	<u>11,970,655</u>
Unallocated:				
Deferred tax assets				84,490
Investments in associates				12,793
Total assets				<u><u>12,067,938</u></u>
Segment liabilities	<u>5,910,426</u>	<u>546,681</u>	<u>991,034</u>	<u>7,448,141</u>
Unallocated:				
Deferred tax liabilities				86,492
Tax payables				97,494
Total liabilities				<u><u>7,632,127</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 2020 are presented as below:

	Wastewater treatment RMB'000	Water supply RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,276,466	260,986	381,971	1,919,423
Segment gross profit	558,256	53,420	67,501	679,177
Segment profit	440,743	37,568	82,153	560,464
Fair value loss on financial liabilities at FVPL				(130,940)
Finance income				71,789
Finance costs				(85,520)
Share of results of associates				(312)
Profit before tax				415,481
Other information				
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)
Fair value gain on investment properties	-	-	44,827	44,827
Impairment loss on trade receivables	(11,856)	(3,010)	(223)	(15,089)
Impairment loss on receivables under service concession arrangements	(8,785)	(3,781)	-	(12,566)
Impairment loss on amounts due from customers for construction contracts	(637)	(454)	-	(1,091)
Amortisation of intangible assets	(10,434)	(1,120)	-	(11,554)
Capital expenditures	(355,037)	(9,435)	(11,944)	(376,416)

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

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

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.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Customer A	573,760	564,284
Customer B	<u>273,056</u>	<u>249,068</u>
	<u>846,816</u>	<u>813,352</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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	430	737
Donation	79	6
Penalty expenses (<i>Note a</i>)	906	2,388
Penalty expenses – compensation for breach of contract (<i>Note b</i>)	1,450	4,236
Others	500	304
	<u>3,365</u>	<u>7,671</u>

Notes:

- (a) Included in the penalty expenses is the compensation for traffic accident of approximately RMB891,000 payable by Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, “**Dianchi Logistics**”) and the medical compensation of approximately RMB15,000 payable by Renhuai Water Treatment Co., Ltd. (仁懷滇池水務有限公司) to the plaintiff.
- (b) Included in the penalty expenses – compensation for breach of contract is a penalty of approximately RMB1,450,000 payable to Leshan Tenghong Construction Engineering Co., Ltd. (樂山騰宏建築工程有限公司) under the judgement of (2020) Chuan 1112 Zhi No. 299 ((2020)川1112執299號).

5. OTHER INCOME/(EXPENSES) – NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants:	27,740	20,223
– relating to property plant and equipment	13,162	10,160
– relating to research and development activities	–	766
– relating to tax refund (<i>Note</i>)	14,578	9,297
Interest income from cash and cash equivalents	3,988	7,087
Fair value change of investment properties	2,622	44,827
Fair value loss of financial liabilities at FVPL	(25,837)	(130,940)
Rental income	15,437	11,164
Others	4,075	4,794
	<u>28,025</u>	<u>(42,845)</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% (2020: 70% and 50%) VAT refund, respectively.

6. EXPENSES BY NATURE

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Depreciation of property, plant and equipment	238,570	227,123
Utilities, electricity and office expenditures	120,798	124,733
Employee benefit expenses	185,214	177,907
Costs of wastewater and water supply services	201,176	146,407
Cost of construction services	587,501	446,061
Taxes and levies	33,396	28,693
Repair and maintenance costs	27,313	27,601
Commission charge	9,733	8,446
Depreciation of right-of-use assets	11,291	13,945
Subcontracting costs	90,921	59,946
Professional expenses	16,006	16,057
Research and development expenses	7,299	7,398
Amortisation of intangible assets	17,642	11,554
Auditor's remuneration	3,170	2,981
Fuels expenses	109,935	57,321
Miscellaneous	94,472	56,539
Total cost of sales, selling expenses, administrative expenses and research and development expenses	1,754,437	1,412,712

7. FINANCE COSTS – NET

	2021	2020
	RMB'000	RMB'000
Finance income:		
– Interest income from term deposits	–	123
– Interest income charged to related parties	83,705	71,666
	<u>83,705</u>	<u>71,789</u>
Finance costs:		
– Total interest expenses on borrowings	(257,655)	(227,092)
– Interest expenses on unsecured borrowings	(178,845)	(95,607)
– Interest expenses on corporate bonds	(2,768)	(31,524)
– Interest expenses on secured borrowings	(76,042)	(99,961)
– Less: borrowing costs capitalised in property, plant and equipment	6,017	8,586
– Finance charges on lease liabilities	–	(168)
	<u>(251,638)</u>	<u>(218,674)</u>
– Exchange gain – net	39,079	133,283
– Others	(1,093)	(129)
	<u>(213,652)</u>	<u>(85,520)</u>
Finance costs – net	(129,947)	(13,731)

8. INCOME TAX EXPENSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax	64,386	74,486
(Over) Under provision in prior years	<u>(606)</u>	<u>2,980</u>
	63,780	77,466
Deferred tax	<u>(6,638)</u>	<u>(12,413)</u>
Income tax expenses	<u><u>57,142</u></u>	<u><u>65,053</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%.

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 years ended 31 December 2021 and 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 2021 and 2020, 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 2021 and 2020.
- (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 tax rates. Such PRC subsidiaries are entitled to three years’ exemption from CIT followed by three years of a 50% CIT 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 tax rates enjoyed 10% deduction of CIT.

8. INCOME TAX EXPENSES (Continued)

Reconciliation of taxation

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u>396,693</u>	<u>415,481</u>
Income tax at applicable tax rate of 25% (2020: 25%)	99,173	103,870
Non-deductible expenses (<i>Note</i>)	272	354
Preferential tax rates of the Company and certain subsidiaries	(40,004)	(35,508)
Additional deduction allowance for research and development expenses	(809)	(805)
Tax exempt revenue	(1,921)	(4,679)
(Over) Under provision in prior years	(606)	2,980
Share of results of associates	259	47
Others	<u>778</u>	<u>(1,206)</u>
Income tax expenses	<u>57,142</u>	<u>65,053</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:

	2021	2020
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	338,278	348,547
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (<i>RMB</i>)	<u>0.33</u>	<u>0.34</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 2021 and 2020.

10. DIVIDENDS

	2021 RMB'000	2020 RMB'000
(a) Final dividends for the year ended 31 December 2020 of RMB0.120 per share (tax inclusive) (2019: RMB0.125 (tax inclusive)) (Note (i))	123,493	128,639
(b) Interim dividends for the six months ended 30 June 2021 of RMB0.050 per share (tax inclusive) (for the six months ended 30 June 2020: RMB0.054 (tax inclusive)) (Note (ii))	<u>51,455</u>	<u>55,572</u>
	<u>174,948</u>	<u>184,211</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 RMB0.100 per share (tax inclusive) (2020: RMB0.120 (tax inclusive)). The aggregate amount of the proposed dividends is expected to be paid in August 2022 out of accumulated profits at 31 December 2021, but not recognised as a liability at year end	<u>102,911</u>	<u>123,493</u>

Notes:

- (i) As approved by the annual general meeting on 18 June 2021, the Company declared a dividend of RMB123,493,320 (tax inclusive) in respect of the accumulated distributable profit as at 31 December 2020. The declaration of the dividend has been reflected as an appropriation of accumulated profits during the year ended 31 December 2021. The dividends were paid out during the year ended 31 December 2021.
- (ii) As approved by the 2021 first extraordinary general meeting on 12 November 2021, the Company declared a interim dividend of RMB51,455,550 (tax inclusive) in respect of the accumulated distributable profit as at 30 June 2021. The declaration of the interim dividends has been reflected as an appropriation of accumulated profits during the six months ended 30 June 2021. The interim dividends were paid out during the year ended 31 December 2021.

11. INVESTMENT PROPERTIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At fair value		
At the beginning of the Reporting Period	273,755	–
Transfer from right-of-use assets and construction in progress	–	217,783
Change in fair value	2,622	44,827
Surplus on property revaluation upon transfer to investment properties	–	11,145
	<u>276,377</u>	<u>273,755</u>
At the end of the Reporting Period	<u>276,377</u>	<u>273,755</u>

The Company leased out the management building in the Kunming No. 2 Water Purification Plant, and 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 RMB251,594,000, and the difference between the fair value and the carrying amount of approximately RMB2,181,000 was recognised in profit or loss;

The Group leased out the self-occupied management buildings in the Kunming No.3 Water Purification Plant. 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 RMB11,531,000, and the loss between the fair value and the carrying amount of approximately RMB(332,000) was recognised in profit or loss; and

Liuyang Dianchi Water Treatment Co., Ltd. (瀏陽滇池水務有限公司) and Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司) (“**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. 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 RMB13,252,000, and the difference between the fair value and the carrying amount of the lands of approximately RMB773,000 was recognised in profit or loss.

At the end of the Reporting Period, the fair value of the investment properties located in the PRC was approximately RMB276,377,000 (2020: approximately RMB273,755,000). 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 (2020: five years to eight years). The lease does not contain any renewal option. Monthly rental charges are fixed payments. The tenants also bear 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 18 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. (2020: 5.10% p.a. to 9.23% p.a.).

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

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	5,495	6,612
Loss allowance	(32)	(50)
	<u>5,463</u>	<u>6,562</u>
Non-current portion:		
Receivables under service concession arrangements	2,761,353	2,433,633
Loss allowance	(29,002)	(13,003)
	<u>2,732,351</u>	<u>2,420,630</u>
	<u><u>2,737,814</u></u>	<u><u>2,427,192</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	23,340	26,954
Loss allowance	(555)	–
	<u>22,785</u>	<u>26,954</u>
Non-current portion:		
Amounts due from customers for construction contracts	580,496	619,954
Loss allowance	(20,782)	(7,225)
	<u>559,714</u>	<u>612,729</u>
	<u><u>582,499</u></u>	<u><u>639,683</u></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 2021, a provision of approximately RMB21,337,000 (2020: approximately RMB7,225,000) was made against the gross amounts to amounts due from customers for construction contracts.

14. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables (Note (a)):		
– Third parties	107,999	83,918
– Related parties	277,462	85,983
– Local government	1,381,406	990,790
– Loss allowance	(56,898)	(35,312)
Trade receivables – net	<u>1,709,969</u>	<u>1,125,379</u>
Other receivables:		
– Third parties	149,949	128,176
– Related parties (Note (b))	865,438	1,029,152
– Local government	53,891	53,319
– Loss allowance	(7,447)	(5,533)
Other receivables – net	<u>1,061,831</u>	<u>1,205,114</u>
Prepayments:		
– Others	112,224	60,545
– Loss allowance	(4)	(4)
Prepayments – net	<u>112,220</u>	<u>60,541</u>
Trade and other receivables – net	<u><u>2,884,020</u></u>	<u><u>2,391,034</u></u>

14. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2021, 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 2021, 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 2021, a provision of approximately RMB56,898,000 (2020: approximately RMB35,312,000) 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 2021, a provision of approximately RMB7,447,000 (2020: approximately RMB5,533,000) was made against the gross amounts to other receivables.

Notes:

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
– Within one year	1,238,288	971,116
– Over one year and within two years	467,025	175,053
– Over two years	61,554	14,522
	<u>1,766,867</u>	<u>1,160,691</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**”), Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, “**Kunming DIG**”) and Kunming Zhongbei Transportation and Tourism (Group) Company Limited (昆明中北交通旅遊(集團)有限責任公司, “**Kunming Zhongbei Transportation**”) and Bank of China or Bank of Communications on 24 September 2021, 22 February 2021, 17 June 2021, 11 October 2021 and 25 October 2021, respectively, pursuant to which, the Group entrusted these banks to grant loans of RMB350,000,000, RMB300,000,000, RMB200,000,000, RMB100,000,000 and RMB80,000,000 to Xindu Investment, Kunming Bus, Kunming DIG and Kunming Zhongbei Transportation, respectively. The entrusted loans to Kunming DIG and Kunming Zhongbei Transportation have been settled during the year. Subsequent to the end of year, the loans of RMB300,000,000 and RMB350,000,000 to Kunming Bus and Xindu Investment, respectively, have been settled.
- (c) The balances of other receivables with third parties mainly represent the tax credits and other receivables at the end of the period.

15. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables to third parties (<i>Note c</i>)	317,188	327,203
Other payables due to:	183,428	148,067
– related parties	11,513	23,255
– local government	500	1,182
– third parties	171,415	123,630
Consideration payable for acquisition of subsidiaries	34,150	53,057
Staff salaries and welfare payables	42,898	42,543
Payables for acquisition of property, plant and equipment due to:	17,829	48,566
– related parties	16,040	16,040
– third parties	1,789	32,526
Payables for acquisition of land use rights from related parties	58,194	58,194
Interest payables	7,537	5,929
Accrued taxes other than income tax	17,758	15,537
	<u>678,982</u>	<u>699,096</u>
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities (<i>Note d</i>)		
– local government	–	30,793
– third parties	7,505	14,700
	<u>7,505</u>	<u>45,493</u>

Notes:

- (a) As at 31 December 2021, 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 2021, the Group's trade and other payables are principally denominated in RMB.

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

Notes: (continued)

- (c) Ageing analysis of trade payables to third parties based on the invoice dates at the end of the Reporting Period is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
– Within one year	198,579	214,562
– Over one year and within two years	37,523	100,354
– Over two years	81,086	12,287
	<u>317,188</u>	<u>327,203</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At the beginning of the Reporting Period	45,493	7,238
Recognised as revenue	(45,493)	(7,238)
Receipt of advances or recognition of receivables (<i>Note</i>)	7,505	45,493
At the end of the Reporting Period	<u>7,505</u>	<u>45,493</u>

Note:

The amounts represented the receipts in advance from local government and third parties for wastewater treatment and BOT project under construction, which is expected to be recognised as revenue within 1 year.

- (e) Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 and 2020 are as follows:

Amounts expected to be recognised as revenue:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Total transaction price allocated to the unsatisfied performance obligations	<u>20,706,311</u>	<u>21,140,635</u>

The amounts of transaction prices of RMB19,819,743,000 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 of RMB886,568,000 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.

- (f) As at 31 December 2021, the other payable due to third parties. Other payables, which are non-interest bearing and mainly represent the construction of wastewater treatment facilities and wastewater treatment services in the amount of approximately RMB132,000,000 with an average credit period of 9 to 12 months.

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 25 March 2022, the Company has proposed final dividends of RMB0.100 per share (inclusive of tax), which is RMB102,911,100 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 an entrusted loan contract with Kunming Bus and Yunnan Branch of Bank of Communications Co., Ltd. (“**Bank of Communications**”) on 22 February 2021, pursuant to which the Company entrusted Bank of Communications to grant a loan of RMB300,000,000 to Kunming Bus with an annual interest rate of 8.5%. In February 2022, all the loans under the entrusted loan contract have been repaid pursuant to relevant entrusted loan contract, and interest of approximately RMB4,604,000 was received subsequently after the Reporting Period.

The Company entered into an entrusted loan contract with Xindu Investment and Kunming Panlong Sub-branch of Bank of China Limited (“**Bank of China**”) on 24 September 2021, pursuant to which the Company entrusted Bank of China to provide a RMB350,000,000 loan to Xindu Investment with an annual interest rate of 7.5%. In February 2022, all the loans under the entrusted loan contract have been repaid pursuant to relevant entrusted loan contract, and interest of approximately RMB5,021,000 was received subsequently after the Reporting Period.

The Company entered into an entrusted loan contract with Xindu Investment and Kunming Chenggong District Rural Credit Cooperative (“**Chenggong District Rural Credit Cooperative**”) on 28 February 2022, pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a RMB250,000,000 loan to Xindu Investment with an annual interest rate of 8.5%. The loan will become due on 28 March 2022. For details, please refer to the announcement of the Company dated 28 February 2022.

II. MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING ENVIRONMENT

Despite over two years of COVID-19 pandemic, China's economy moved forward steadily. Under the ongoing prevention and control of pandemic, China's economy has generally shown a positive trend of recovery, but under the influence of uncertainties in the external environment such as the complex and volatile domestic and international situation, rising geopolitical risks and high global inflation, downward pressure on China's economy will remain in the short term. Despite this, with strong resilience, China's economy will maintain a positive trend in the long term. Looking ahead to 2022, the second year of the 14th Five-Year Plan is expected to become the "second spring" of China's economic transformation with the further release of benefits from system and mechanism reform.

Since the 18th CPC National Congress, China has always attached great importance to ecological advancement and protection of ecological environment, put forward a series of new concepts, ideas and strategies, and made significant progress and achieved remarkable results in 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. Since the 14th Five-Year Plan, water industry received a series of support from the source to the financial level, thereby effectively promoting the growth of the industry. During the "14th Five-Year Plan" period, the market space of the wastewater treatment industry in which the Company's main business operates will continue to expand under the joint stimulation of the rising urbanisation rate, the improvement of wastewater treatment quality and efficiency, and the comprehensive water environment management market. In addition, the strengthened regulation has also resulted in the requirement to optimise and upgrade the facilities and improve the technical standards and efficiency, thus providing development opportunities for the industry.

The Company has established a presence along the Yangtze River and Huai River covering Sichuan, Guizhou, Hunan, Anhui and Zhejiang provinces, with a proprietary wastewater treatment capacity of approximately 2.043 million m³/day as at the end of the Reporting Period. With extensive operation experience accumulated over the years and intelligent water services empowerment, the Company has been able to further increase its market share with the support of existing market. In addition, we enjoy exclusive rights to provide wastewater treatment services to Kunming and other regions of China. 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

Water resources in China are relatively limited. With the acceleration of urbanisation and industrialisation in China, water pollution and water shortage have become a serious constraint on the sustainable development of China's economy and society, and wastewater management has become the most important task of water environment management. In recent years, China has put more emphasis and support on the environmental protection industry, and introduced a number of policies related to wastewater treatment during the "14th Five-Year Plan" period. Driven by China's continuous policy support and investment in environmental protection and wastewater treatment industry, China's wastewater treatment industry has experienced continuous steady development. At the same time, individual wastewater treatment and dark and odorous water treatment projects will be extended from urban to rural areas. At present, China's rural water supply, wastewater treatment and domestic waste disposal markets remain to be developed. With the realization of comprehensive poverty alleviation in China and the in-depth implementation of the national strategy of rural revitalization, integrated urban and rural water supply, wastewater treatment and domestic waste disposal and environmental improvement will bring new development opportunities for the industry.

In addition, as the water service market enters an era of professional operation, technical improvement and transformation and standardized operation have become a key focus of future development, and the focus of business has shifted from focusing on construction instead of operation to improving quality and efficiency and sustainable development with increasing emphasis on the operation and maintenance of sewage networks, sewage collection rates, pollutant reduction rates and recycled water utilisation, which promotes green and sustainable development to become future development direction of the industry and brings market demand for high standard services, creating both challenges and opportunities.

2. Overview of Reclaimed Water Industry

Water scarcity and water pollution are major water security issues faced by the world. Reclaimed water has become an internationally recognised “second source of water for cities” because of its stable quantity, controllable quality and local availability. In January 2021, the National Development and Reform Commission, together with nine governmental departments, 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》)”, which clearly defined the development objectives of recycling and utilisation of wastewater resources in China, indicating that recycling and utilisation of wastewater resources have been elevated to the level of a national action plan. In recent years, China’s urban wastewater infrastructure has developed rapidly with continuous increase in wastewater treatment capacity and continuous improvement in water quality of wastewater treatment plants, laying a good foundation for the utilisation of recycled water. It is expected that during the “14th Five-Year Plan” period, the utilisation of reclaimed water in China will experience faster development. The planning, construction, operation, maintenance and management of reclaimed water plants have huge development potential and market opportunities.

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, and relevant investment also showed a steady growth trend.

With the relocation of manufacturing industry to China’s western provinces and the accelerated urbanisation, the development of an integrated urban cluster in central Yunnan and the optimisation of administrative districts, and the accelerated development of urban-rural integration, the urbanisation rate in Yunnan Province will have more room for improvement in the future, which will increase the demand for municipal water supply. Municipal water supply industry will benefit from the steadily 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 increased steadily as compared to 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.

In 2021, due to the measures taken to restrict the movement of personnel and materials as a result of the ongoing COVID-19 pandemic, which indirectly affected the actual progress and geographical scope of the Company's investments, the Company's investments during the reporting period were mainly concentrated within the PRC, with the majority in the southwest region.

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 and production resumption, 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 vaccination, China's economy is recovering at a faster pace. In addition, the Company has established a dedicated receivables management leading team and department, which is responsible for dedicated management of the Company's receivables and formulating individual collection plan for each receivable item. 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

Looking ahead to 2022, China's fiscal and monetary policies will have ample room for adjustment and control. China will continue to introduce policies that are conducive to economic stability in 2022, with fiscal expenditure being guaranteed, expenditure progress being accelerated and new tax and surcharge reduction policies being implemented, while monetary policy will maintain a reasonable level of liquidity. These series of policies will strongly reinforce the supporting effect of macroeconomic policies on economic growth.

The year 2021 is the start of a new journey to fully build a modernized socialist country and the beginning of the "14th Five-Year Plan" period. Since the start of the "14th Five-Year Plan" period, with the implementation of the new environmental protection law, China will enter a new normal of environmental protection industry with stricter policies, higher standards and social participation. In the government work report for 2021, it is mentioned that China will continue to implement the task of protecting the blue sky, clear water and clean soil, and complete the phased objectives of pollution control and prevention. China will continue to implement major projects to protect and restore the Yangtze River, Yellow River, coastline and other important ecosystems and strengthen ecological construction. It will also continue to step up its efforts in ecological management, improve the capacity of urban sewage collection and industrial wastewater disposal in industrial parks, and adhere to the concept that lucid waters and lush mountains are invaluable assets, indicating that the water industry will continue to improve and develop.

Under the guidance of key national strategic plans such as the “Yangtze River Economic Belt”, the 14th Five-Year Plan for the Development of Urban Wastewater Treatment and Resource Utilization (《“十四五”城鎮污水處理及資源化利用發展規劃》), 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. In the future, on top of continuous development in our existing business market, we will closely follow the direction of the industry policies and make comprehensive investment in the upstream and downstream of the industry chain in various sectors such as watershed management, high-quality reclaimed water supply, construction of intelligent water plants, sludge resource utilisation, mine restoration and solid waste treatment and disposal, so as to 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. In terms of promoting green and low-carbon development, the Company will strive to reduce the average electricity consumption per tonne of water treatment. Chemical oxygen demand, ammonia nitrogen, total phosphorus and total nitrogen of effluents from the water purification plants in the main urban area of Kunming and around the lake were 73%, 95%, 83% and 49% lower than the emission limits of national Class I Standard A standard, respectively. The Company actively participates in market-based electricity trading and prioritises the procurement of clean energy. In 2021, the Company procured approximately 0.27 billion kWh of electricity, of which 55% was hydropower, 25% was thermal power and 20% was new energy, with no direct carbon emissions involved. We are committed to maximising both economic and social benefits.

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 2021, our TOO projects contributed to 45.2% of our total revenue. Our TOT projects contributed to 7.9% of our total revenue and our BOT projects contributed to 28.7% 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 2021, we had a total of 49 plants (41 wastewater treatment plants and 8 running water plants) under concession agreements, of which 47 plants were in operation and 2 plants were under construction. Among the 47 plants in operation, 14 were TOO projects, 22 were TOT projects, 9 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilisation rate of our facilities was maintained at a high level. For the year ended 31 December 2021, the total volume of wastewater treated was approximately 706.1 million m³ with an average facility utilisation rate of approximately 96%.

Wastewater Treatment Projects

As of 31 December 2021, we had a total of 40 wastewater treatment plants in operation (including 14 in Kunming and 26 in other areas of China), with a total wastewater treatment capacity of 2.04 million m³ per day. We also had 1 wastewater treatment plant under construction in Yunnan Province, the PRC. 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. During the Reporting Period, the Company entered into the Supplemental Agreement to the Concession Contract for the BOT Project of Fujian Xianyou Economic Development Zone Wastewater Treatment Plant with Fujian Xianyou Economic Development Zone Management Committee and Xianyou County Water Services Investment Group Co., Ltd., and planned to make an investment of RMB34.4 million to carry out the phase I upgrading and transformation project of the Xianyou Economic Development Zone Wastewater Treatment Plant. As of 31 December 2021, 96% 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 approximately 0.5 million m³ per day. We have been entrusted to operate and manage rural domestic sewage collection and treatment facilities in 886 villages, covering 19 towns.

Reclaimed Water Business

For our reclaimed water business, as of 31 December 2021, we had 11 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 233,000 m³. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. During the Reporting Period, reclaimed water supply was 54.422 million m³, representing an increase of approximately 75% compared with 2020.

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 2021, 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 increased by approximately 15% as compared to the year of 2020. 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 2021, our total interest-bearing liabilities amounted to RMB6,405.9 million, representing an increase of 29.0% from RMB4,966.9 million in 2020. As of 31 December 2021, our net gearing ratio, calculated as net debt divided by total capital, was 52.2%.

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. 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 RMB398.3 million, or 20.8%, to RMB2,317.7 million for the year ended 31 December 2021, from RMB1,919.4 million for the year ended 31 December 2020. Gross profits increased by RMB45.6 million, or 6.7%, to RMB724.8 million for the year ended 31 December 2021, from RMB679.2 million for the year ended 31 December 2020. During the Reporting Period, revenue from wastewater treatment services, reclaimed water and running water supply and other segments accounted for 59%, 8% and 33% 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 periods indicated:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	2,317,738	1,919,423
Cost of sales	<u>(1,592,956)</u>	<u>(1,240,246)</u>
Gross profit	724,782	679,177
Selling expenses	(13,705)	(13,703)
Administrative expenses	(140,477)	(151,365)
Research and development expenses	(7,299)	(7,398)
Net impairment losses on financial assets	(59,593)	(26,671)
Other income/(expenses) – net	28,025	(42,845)
Other losses	<u>(3,365)</u>	<u>(7,671)</u>
Operating profit	<u>528,368</u>	<u>429,524</u>
Finance income	83,705	71,789
Finance costs	<u>(213,652)</u>	<u>(85,520)</u>
Finance costs – net	(129,947)	(13,731)
Share of results of associates	<u>(1,728)</u>	<u>(312)</u>
Profit before tax	396,693	415,481
Income tax expenses	<u>(57,142)</u>	<u>(65,053)</u>
Profit for the year	339,551	350,428
Other comprehensive income	<u>(1,219)</u>	<u>13,290</u>
Total comprehensive income for the year	<u><u>338,332</u></u>	<u><u>363,718</u></u>

a. Revenue

Our revenue increased by RMB398.3 million, or 20.8%, to RMB2,317.7 million for the year ended 31 December 2021 from RMB1,919.4 million for the year ended 31 December 2020, primarily due to:

- Our revenue from wastewater treatment business increased by RMB93.8 million or 7.3% from RMB1,276.5 million for the year ended 31 December 2020 to RMB1,370.3 million for the year ended 31 December 2021. In particular, wastewater treatment operating income increased by RMB92.5 million, which was mainly due to the increase in wastewater treatment volume; the construction income decreased by approximately RMB15.6 million, which was mainly due to the decrease in investment for existing projects including Zhaotong Central City Second Sewage Treatment Plant Project and Fanchang County Second Sewage Treatment Plant Project as compared to 2020; and the finance income increased by approximately RMB16.9 million.
- Our revenue from water supply segment decreased by RMB69.5 million or 26.6% from RMB261.0 million for the year ended 31 December 2020 to RMB191.5 million for the year ended 31 December 2021. In particular, water supply operating income increased by RMB15.5 million, which was mainly due to the increase in water supply business volume of Yunnan Reclaimed Water; the construction income decreased by approximately RMB85.4 million, which was mainly due to the decrease in investment for existing projects including Chenjiaying Ditch Water Environment Comprehensive Treatment and Ecological Water Replenishment Project Phase II, Wuhua Xuning Temple Area Flood Control and Pollution Treatment and Ecological Water Replenishment Project as compared to 2020.
- Our revenue from other segments increased by RMB373.9 million or 97.9% from RMB382.0 million for the year ended 31 December 2020 to RMB755.9 million for the year ended 31 December 2021. The management service income increased by approximately RMB86.7 million resulting from the increase in business volume of entrusted management services provided by the Company in 2021; the construction income increased by approximately RMB214.2 million resulting from the continuous construction of projects such as the Kunming Domestic Waste Sanitary Landfill Construction Project. The thermal power income increased by approximately RMB55.8 million resulting from the increase in supply of thermal power by Hongyu Thermal Power during the year.

b. Cost of sales

Our cost of sales increased by RMB352.8 million, or 28.4%, to RMB1,593.0 million for the year ended 31 December 2021, from RMB1,240.2 million for the year ended 31 December 2020. Details are as follows:

- Our cost of sales for wastewater treatment segment increased by RMB41.7 million, or 5.8%, to RMB759.9 million for the year ended 31 December 2021, from RMB718.2 million for the year ended 31 December 2020, 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 RMB65.9 million, or 31.7%, to RMB141.7 million for the year ended 31 December 2021, from RMB207.6 million for the year ended 31 December 2020, which was mainly due to the decrease in construction cost of approximately RMB51.4 million resulting from the decrease in investment for existing projects including Chenjiaying Ditch Water Environment Comprehensive Treatment and Ecological Water Replenishment Project Phase II, Wuhua Xuning Temple Area Flood Control and Pollution Treatment and Ecological Water Replenishment Project as compared to 2020.
- Our cost of sales for other segments increased by RMB376.8 million, or 119.8%, to RMB691.3 million for the year ended 31 December 2021, from RMB314.5 million for the year ended 31 December 2020. In particular, the entrusted management costs increased by approximately RMB44.0 million resulting from the increase in business volume of entrusted management services; the construction cost increased by approximately RMB209.1 million resulting from the continuous construction of projects such as the Kunming Domestic Waste Sanitary Landfill Construction Project. In addition, the thermal power cost increased by approximately RMB58.0 million resulting from the increase in supply of thermal power by Hongyu Thermal Power during the year.

c. Gross margin

Our gross profit increased by RMB45.6 million, or 6.7%, to RMB724.8 million for the year ended 31 December 2021, from RMB679.2 million for the year ended 31 December 2020, which was mainly due to the increase in gross profit from wastewater treatment segment of RMB52.1 million, decrease in gross profit from water supply segment of RMB3.6 million and decrease in gross profit from other segments of RMB2.9 million.

Our gross margin decreased by 4.1% from 35.4% for the year ended 31 December 2020 to 31.3% for the year ended 31 December 2021, which was mainly due to the decrease in gross margin of other segments, partially offset by the increase in gross margin of wastewater treatment segment and water supply segment.

- Our gross profit from wastewater treatment segment increased by RMB52.1 million, or 9.3%, to RMB610.4 million for the year ended 31 December 2021, from RMB558.3 million for the year ended 31 December 2020. Our segment gross margin increased by 0.8% from 43.7% for the year ended 31 December 2020 to 44.5% for the year ended 31 December 2021.
- Our gross profit from water supply segment decreased by RMB3.6 million, or 6.7%, to RMB49.8 million for the year ended 31 December 2021, from RMB53.4 million for the year ended 31 December 2020. Our segment gross margin increased by 5.5% from 20.5% for the year ended 31 December 2020 to 26.0% for the year ended 31 December 2021, which was mainly due to the decrease in proportion of construction business and the increase in finance income from the continuous operation of existing projects.
- Our gross profit from other segments decreased by RMB2.9 million, or 4.3%, to RMB64.6 million for the year ended 31 December 2021, from RMB67.5 million for the year ended 31 December 2020. Our segment gross margin decreased by 9.2% from 17.7% for the year ended 31 December 2020 to 8.5% for the year ended 31 December 2021, which was mainly due to the lower gross margin of the thermal power supply service of Hongyu Thermal Power; and the lower gross margin of construction service due to the increased investment in the construction of the Kunming Domestic Waste Sanitary Landfill Construction Project during the year, resulting in decrease of overall gross margin.

d. *Selling expenses*

Our selling expenses amounted to RMB13.7 million for the year ended 31 December 2021, which is approximately the same amount as the selling expenses for the year ended 31 December 2020.

e. *Administrative expenses*

Administrative expenses decreased by RMB10.9 million, or 7.2%, to RMB140.5 million for the year ended 31 December 2021, from RMB151.4 million for the year ended 31 December 2020, which was mainly due to the decrease in employees expense.

f. *Research and development expenses*

Research and development expenses decreased by RMB0.1 million, or 1.4%, to RMB7.3 million for the year ended 31 December 2021, from RMB7.4 million for the year ended 31 December 2020.

g. Net impairment losses on financial assets

Impairment losses on financial assets increased by RMB32.9 million from RMB26.7 million for the year ended 31 December 2020 to RMB59.6 million for the year ended 31 December 2021, which was mainly due to the increase in provision for losses that need to be recognised for trade receivables, concession agreements and receivables under construction contracts and an impairment loss of RMB59.6 million was provided for financial assets during the Reporting Period.

h. Other income/(expenses) – net

Our other income/(expenses) - net changed from other expenses of RMB42.8 million for the year ended 31 December 2020 to other income of RMB28.0 million for the year ended 31 December 2021, representing an increase of RMB70.8 million or 165.4%, which was mainly due to the decrease in losses incurred from the change in fair value of RMB105.1 million in 2021 as compared to last year.

i. Other losses

Our other losses decreased to other losses of RMB3.4 million for the year ended 31 December 2021, from other losses of RMB7.7 million for the year ended 31 December 2020, which was mainly attributable to the decrease in penalty expense.

j. Operating profit

As a result of the foregoing factors, our operating profit increased by RMB98.9 million, or 23.0%, to RMB528.4 million for the year ended 31 December 2021, from RMB429.5 million for the year ended 31 December 2020. Our operating margins for the years ended 31 December 2021 and 2020 were 22.8% and 22.4%, respectively.

k. Finance income

Our finance income increased by RMB11.9 million, or 16.6%, to RMB83.7 million for the year ended 31 December 2021, from RMB71.8 million for the year ended 31 December 2020, primarily due to an increase in interest income from borrowings to related parties.

l. Finance costs

Our finance costs increased by RMB128.2 million, or 149.9%, to RMB213.7 million for the year ended 31 December 2021, from RMB85.5 million for the year ended 31 December 2020, primarily due to the exchange gain of RMB41.3 million from the foreign currency borrowings of Company due to change in foreign exchange in 2021, representing a decrease of RMB76.1 million from last year.

m. Profit before income tax

As a result of the foregoing factors, our profit before income tax decreased by RMB18.8 million, or 4.5%, to RMB396.7 million for the year ended 31 December 2021 from RMB415.5 million for the year ended 31 December 2020.

n. Income tax

We incurred income tax expenses of RMB65.1 million for the year ended 31 December 2020 and RMB57.1 million for the year ended 31 December 2021 at effective tax rates of 15.7% and 14.4%, respectively. Our effective tax rate remained basically the same as last year. The effective tax rate was slightly lower than 15% due to the addition of certain wastewater treatment facilities eligible for preferential tax treatment and and the fact that certain subsidiaries are 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 RMB25.4 million, or 7.0%, to RMB338.3 million for the year ended 31 December 2021 from RMB363.7 million for the year ended 31 December 2020.

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:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net cash used in operating activities	(716,957)	(613,467)
Net cash from/(used) investing activities	230,908	(290,733)
Net cash from financing activities	1,244,124	387,547
Net increase/(decrease) in cash and cash equivalents	758,075	(516,653)
Effect of change in foreign exchange rates	(3,669)	(23,606)
Cash and cash equivalents at the beginning of the Reporting Period	749,940	1,290,199
Cash and cash equivalents at the end of the Reporting Period	1,504,346	749,940

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 2021, our net cash used in operating activities was RMB717.0 million, primarily comprising cash used in operations amounting to RMB415.5 million, income tax paid amounting to RMB62.4 million and interest paid amounting to RMB239.1 million. The net cash used in operating activities in 2021 increased by RMB103.5 million compared with that of 2020, primarily due to the decrease in operating income in 2021 as compared to 2020.

b. *Net cash from (used in) investing activities*

Our net cash from (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 2021, the net cash from investing activities amounted to RMB230.9 million, primarily comprising the purchase of property, plant and equipment amounting to RMB57.7 million, purchase of concessions that constitute intangible assets amounting to RMB141.8 million, net collection of loans granted to related parties amounting to RMB350.0 million and interests received amounting to RMB90.6 million. The net cash used in investing activities changed to net cash from investing activities in 2021, primarily due to net collection of loans granted to related parties of RMB350.0 million during the year.

c. *Net cash from financing activities*

Our net cash from financing activities primarily represents borrowings.

Our net cash generated from financing activities increased from net inflow of RMB387.5 million for the year ended 31 December 2020 to net inflow of RMB1,244.1 million for the year ended 31 December 2021, which was primarily attributable to an increase in borrowings in 2021 compared with 2020.

3. Working Capital

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	5,463	6,562
Inventories	16,595	11,759
Amounts due from customers for construction contracts	22,785	26,954
Financial assets at amortised cost	294,000	300,000
Trade and other receivables	2,884,020	2,391,034
Cash and bank balances	1,504,346	749,940
Restricted funds	49,650	7,990
Total current assets	4,776,859	3,494,239
Current liabilities		
Trade and other payables	678,982	699,096
Tax payables	97,494	96,091
Borrowings	4,212,914	1,884,963
Lease liabilities	–	1,168
Contract liabilities	7,505	45,493
Financial liabilities at fair value through profit or loss	110,450	84,613
Total current liabilities	5,107,345	2,811,424
Net current (liabilities) assets	(330,486)	682,815

We recorded net current liabilities of RMB330.5 million as of 31 December 2021 and net current assets of RMB682.8 million as of 31 December 2020. The decrease in our net current assets was mainly attributable to the increase in secured short-term borrowings.

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 RMB310.6 million or 12.8% from RMB2,427.2 million on 31 December 2020 to RMB2,737.8 million on 31 December 2021, primarily because our receivables under service concession arrangements that were classified as non-current assets increased by RMB311.8 million or 12.9% year-on-year from 2020 to 2021. The increase was mainly due to the recognition of receivables of RMB53.2 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; recognition of receivables of RMB46.5 million based on the construction progress of the Zhaotong Central City Second Sewage Treatment Plant Project; and recognition of receivables of RMB191.9 million based on the construction progress of the Project of Comprehensive Improvement of Water Environment and Ecological Recharge with Reclaimed Water for Ejie River in Jinning District, the Project of Capacity Expansion of Reclaimed Water Treatment Station and Supporting Pipeline Network in Main Urban Areas of Kunming and other existing projects.

b. *Inventories*

Our total inventory balance increased by RMB4.8 million, or 40.7%, to RMB16.6 million as of 31 December 2021 from RMB11.8 million as of 31 December 2020, which was mainly due to the fact that coal increased by RMB6.1 million, or 469.2%, to RMB7.4 million as of 31 December 2021 from RMB1.3 million as of 31 December 2020.

Our inventory turnover days decreased from 5.1 days on 31 December 2020 to 3.2 days on 31 December 2021 (calculated as the average inventories for the relevant year divided by the cost of sales recognised for the relevant year, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2020 and 2021).

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 decreased by RMB57.2 million, or 8.9%, to RMB582.5 million as of 31 December 2021 from RMB639.7 million as of 31 December 2020, primarily due to the decreased investment in construction for projects such as the Urban Construction Demonstration Project of Improvement of Dark and Odorous Water in Urban Area of Zhaotong and the Environmental Protection Project in Haitou Village, Qingshuihai Conservation Area, Xundian County as compared to 2020 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:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade receivables:		
– Third parties	107,999	83,918
– Related parties	277,462	85,983
– Local government	1,381,406	990,790
– Loss allowance	(56,898)	(35,312)
	<u>1,709,969</u>	<u>1,125,379</u>
Trade receivables – net	<u>1,709,969</u>	<u>1,125,379</u>
Other receivables:		
– Third parties	149,949	128,176
– Related parties	865,438	1,029,152
– Local government	53,891	53,319
– Loss allowance	(7,447)	(5,533)
	<u>1,061,831</u>	<u>1,205,114</u>
Other receivables – net	<u>1,061,831</u>	<u>1,205,114</u>
Prepayments:		
– Others	112,224	60,545
– Impairment loss	(4)	(4)
	<u>112,220</u>	<u>60,541</u>
Prepayments – net	<u>112,220</u>	<u>60,541</u>
Trade and other receivables – net	<u><u>2,884,020</u></u>	<u><u>2,391,034</u></u>

Our net trade and other receivables increased by RMB493.0 million, or 20.6%, to RMB2,884.0 million as of 31 December 2021 from RMB2,391.0 million as of 31 December 2020, reflecting in (i) an increase in trade receivables due from local government by RMB390.6 million, or 39.4%, to RMB1,381.4 million as of 31 December 2021 from RMB990.8 million as of 31 December 2020; (ii) an increase in amounts due from related parties by RMB191.5 million, or 222.7%, to RMB277.5 million as of 31 December 2021 from RMB86.0 million as of 31 December 2020; (iii) a decrease in amounts due from other third parties by RMB163.8 million, or 15.9%, to RMB865.4 million as of 31 December 2021 from RMB1,029.2 million as of 31 December 2020, mainly attributable to the decrease in net entrusted loans of RMB350.0 million for the year; and (iv) increase in total prepayment of RMB51.7 million in 2021.

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

	As at 31 December	
	2021	2020
	RMB'000	<i>RMB'000</i>
– Within one year	1,238,288	971,116
– Over one year and within two years	467,025	175,053
– Over two years	61,554	14,522
	<u>1,766,867</u>	<u>1,160,691</u>

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

	As at 31 December	
	2021	2020
	RMB'000	<i>RMB'000</i>
– Within one year	1,238,288	971,116
– Over one year and within two years	467,025	175,053
– Over two years	61,554	14,522
	<u>1,766,867</u>	<u>1,160,691</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:

	As at 31 December	
	2021	2020
	<i>Days</i>	<i>Days</i>
Trade receivable turnover days ⁽¹⁾	223.3	199.5
Trade and other receivable turnover days ⁽²⁾	415.4	440.1

Notes:

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2020 and 2021.
- (2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2020 and 2021.

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:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade payables	317,188	327,203
Other payables	183,428	148,067
Consideration payable for acquisition of subsidiaries	34,150	53,057
Staff salaries and welfare payables	42,898	42,543
Payables on acquisition of property, plant and equipment	17,829	48,566
Payables on acquisition of land use rights from related parties	58,194	58,194
Interest payables	7,537	5,929
Accrued taxes other than income tax	17,758	15,537
	678,982	699,096

Contract liabilities

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contract liabilities		
– local government	–	30,793
– third parties	<u>7,505</u>	<u>14,700</u>
	<u>7,505</u>	<u>45,493</u>

Our trade and other payables decreased by RMB20.1 million, or 2.9%, to RMB679.0 million as of 31 December 2021 from RMB699.1 million as of 31 December 2020, which was mainly due to the trade payables decreased in 2021.

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– Within one year	198,579	214,562
– Over one year and within two years	37,523	100,354
– Over two years	<u>81,086</u>	<u>12,287</u>
	<u>317,188</u>	<u>327,203</u>

As at 31 December 2020 and 2021, 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:

	As at 31 December	
	2021	2020
	<i>Days</i>	<i>Days</i>
Trade and other payables turnover days ⁽¹⁾	157.9	175.0
Trade payables turnover days ⁽²⁾	138.3	119.0

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 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2020 and 2021.
- (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 365 days for the years ended 31 December 2020 and 2021.

Our trade payables turnover days increased by 19.3 days in 2021 as compared with 2020, mainly due to the increase in trade payables as at the end of relevant year.

The directors of the Company confirm that up to 31 December 2021, there was no material default in payment of trade payables.

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:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion		
Unsecured long-term borrowings	1,492,600	850,000
Secured long-term borrowings	700,423	2,194,263
Corporate bonds	–	37,703
Total non-current borrowings	<u>2,193,023</u>	<u>3,081,966</u>
Current portion		
Unsecured short-term borrowings	2,129,226	1,390,000
Secured short-term borrowings	2,044,877	494,963
Corporate bonds	38,811	–
Total current borrowings	<u>4,212,914</u>	<u>1,884,963</u>
Total borrowings	<u>6,405,937</u>	<u>4,966,929</u>

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

	As at 31 December	
	2021	2020
Weighted average effective interest rates	<u>5.34%</u>	<u>5.89%</u>

As of 31 December 2020 and 2021, our total borrowings amounted to RMB4,966.9 million and RMB6,405.9 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 RMB1,439.0 million this year. Among our indebtedness, borrowings amounting to RMB363.9 million and RMB561.5 million as of 31 December 2020 and 2021, 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 2021, 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 2021, 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 2021, 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:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
On demand or within 1 year	4,212,914	1,883,854
Between 1 and 2 years	1,020,349	2,431,242
Between 2 and 5 years	883,544	626,633
Later than 5 years	<u>289,130</u>	<u>25,200</u>
	<u>6,405,937</u>	<u>4,966,929</u>

As of 31 December 2020 and 2021, our net gearing ratios were 49.6% and 52.2%, respectively. Our net gearing ratios as at 31 December 2021 increased as compared with 31 December 2020 primarily due to an increase in closing balance of borrowings by RMB1,439.0 million in 2021.

Except as disclosed above, as of the 31 December 2021, 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:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Property, plant and equipment	<u>317,311</u>	<u>54,099</u>

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Concession projects and construction projects	<u>1,288,760</u>	<u>1,521,290</u>

c. Capital expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenses were RMB376.4 million and RMB59.1 million for the years ended 31 December 2020 and 2021, 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:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Wastewater treatment	41,492	355,037
Water supply	3,967	9,435
Others	13,671	11,944
	<hr/>	<hr/>
Total	59,130	376,416
	<hr/> <hr/>	<hr/> <hr/>

Based on our current business plan, we expect to incur capital expenditure amounting to RMB155.8 million for the year ending 31 December 2022. 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 2021, 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 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 2021, 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) <i>RMB million</i>	Unused net proceeds from the Initial Public Offering as at 1 January 2021 <i>RMB million</i>	Actual use of	Actual use of	Unused net proceeds from the Initial Public Offering <i>RMB million</i>
				net proceeds from the Initial Public Offering for the period from 1 January 2021 to 31 December 2021 <i>RMB million</i>	net proceeds from the Initial Public Offering from the Listing Date to the period ended 31 December 2021 <i>RMB million</i>	
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	57.7	–	317.6	57.7
To acquire TOT/TOO wastewater treatment plants and running water supply projects	35%	375.3	85.6	–	289.7	85.6
Repayment of bank borrowings	20%	214.5	1.6	–	212.9	1.6
To supplement working capital and for general corporate purposes	10%	107.2	–	–	107.2	–
Effect of foreign exchange						6.6
Effect of interest income						0.4
Total	<u>100%</u>	<u>1,072.3</u>	<u>144.9</u>	<u>–</u>	<u>927.4</u>	<u>151.9</u>

As of 31 December 2021, 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. Affected by the COVID-19 pandemic, the original progress of utilisation was slight delayed, and is expected to be used up by June 2023. 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 2021, there was no material change 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, with principals of USD180,198,000 and HKD812,000,000 respectively. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. The Group entered into a confirmation of RMB foreign exchange currency swap transactions with financial institution to fix 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:

The financial institution pays floating interest on swap agreements and the fixed interest payer is the Group. Before the Group pays each instalment of the foreign currency principal and interest, the financial institution will pay the equivalent currency into the Group's account. The Group can use the foreign currency to pay the principal and interest. At the same time, when the Group pays RMB to the financial institution, the interest rate is fixed. The nominal principal for calculating the interest is calculated by multiplying the principal in the loan agreement by the fixed exchange rate locked by the confirmation of swap transactions, 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 2021, loss on change in fair value of such swap transactions was RMB25,837,000 and exchange gain from foreign currency borrowings was RMB24,245,000.

8. Employees and remuneration policies

Relationship with Employees

As of 31 December 2021, we had 1,403 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 2021:

Function	Number
Management and Administration	165
Finance	42
Research and Development	73
Quality Monitoring	238
Marketing	16
Operations	823
Construction and Maintenance	46
Total	<u>1,403</u>

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 2020 and 2021, our employee benefits amounted to approximately RMB177.9 million and RMB185.2 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.

The 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. The 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 2021, the Group did not have any significant contingent liabilities.

10. Material charges on assets

As at 31 December 2021, the Group's secured bank and other borrowings are secured by:

- (i) certain wastewater treatment and water supply concession rights (comprising operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;
- (ii) certain equipment of the Group's wastewater treatment facilities.

11. Major investment and acquisition

On 11 September 2020, 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) 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 state-owned company owned as to approximately 90% by the Kunming SASAC and is not a connected person as defined in the Listing Rules. The Company invested RMB300 million in the asset management plan. For details, please refer to the announcement of the Company dated 11 September 2020.

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

On 29 September 2021, the Company (as the asset entrustor) entered into the Mutual Trust No. 5 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 KADI for a term of 3 months. The Company invested RMB300 million in the asset management plan. For details, please refer to the announcement of the Company dated 29 September 2021.

On 31 December 2021, the Company entered into a supplemental agreement in relation to the extension of the term of the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital and China Merchants Bank, extending the term of the Mutual Trust No. 5 Asset Management Agreement and the asset management plan thereunder to 10 April 2022. For details, please refer to the announcement of the Company dated 31 December 2021.

As at the end of the Reporting Period, such asset management plan accounted for approximately 2.4% of the total assets of the Company.

These investments recorded realised gains of approximately RMB21.0 million during the year. By entering into the asset management agreements 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 2021.

12. Loans to Certain Entities

The Company entered into a entrusted loan contract 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 22 February 2021, pursuant to which the Company entrusted Bank of Communications to grant a loan of RMB300 million respectively to Kunming Bus with an annual interest rate of 8.5%. The loan will become due on 24 February 2022. For details, please refer to the announcement of the Company dated 22 February 2021.

The Company entered into two entrusted loan contracts with Kunming Development Investment Group Co., Ltd. (“**Kunming DIG**”), Bank of Communications and Kunming Guandu Sub-branch of Bank of China Limited (“**Guandu Sub-branch of Bank of China**”) on 17 June 2021 and 11 October 2021, respectively, pursuant to which the Company entrusted Bank of Communications and Guandu Sub-branch of Bank of China to provide loans of RMB200 million and RMB100 million respectively to Kunming DIG with an annual interest rate of 7.5%. As at the Latest Practicable Date, 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 17 June 2021 and 11 October 2021.

The Company entered into an entrusted loan contract with Kunming Xindu Investment Co., Ltd. (“**Xindu Investment**”) and Kunming Panlong Sub-branch of Bank of China Limited (“**Panlong Sub-branch of Bank of China**”) on 24 September 2021, pursuant to which the Company entrusted Panlong Sub-branch of Bank of China to provide a RMB350 million loan to Xindu Investment with an annual interest rate of 7.5%. The loan will become due on 28 February 2022. For details, please refer to the announcement of the Company dated 24 September 2021.

The Company entered into an entrusted loan contract with Kunming Zhongbei Transportation and Tourism (Group) Company Limited (“**Kunming Zhongbei Transportation**”) and Guandu Sub-branch of Bank of China on 25 October 2021, pursuant to which the Company entrusted Guandu Sub-branch of Bank of China to provide a RMB80 million loan to Kunming Zhongbei Transportation with an annual interest rate of 8.5%. The loan has been repaid on 24 November 2021.

According to the knowledge of the Company, Kunming Bus, Kunming Zhongbei Transportation, Kunming DIG and Xindu Investment are all controlled or held by Kunming SASAC, and Kunming DIG holds 6.818% equity interest of Xindu Investment and Kunming Bus holds 10% equity interest of Kunming Zhongbei Transportation. Saved as disclosed above, Kunming Bus, Kunming Zhongbei Transportation, Xindu Investment and Kunming DIG are not related to each other, and neither are they the connected persons as defined in the Listing Rules.

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

Being a company listed on the Stock Exchange, the Company is always dedicated to maintaining the corporate governance practices at a high standard. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”) and other provisions relating to corporate governance as its own corporate governance code. During the Reporting Period, the Company had established various committees under the Board and formulated the relevant corporate governance system in accordance with the provisions contained in the Corporate Governance Code.

The Directors of the Company believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code (the version as of 31 December 2021) except for provision A.4.2 (which was renumbered as B.2.2 on 1 January 2022).

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 Corporate Governance Code) in respect of their dealings in the Company’s securities. After making specific enquiries to all of the directors and supervisors of the Company, the directors and supervisors of the Company confirmed that they had strictly complied with the required standards as set out in the Model Code during the Reporting Period.

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

Neither the Company nor any of its subsidiaries had made any purchase, sale or redemption of the Company's listed securities during the Reporting Period.

VI. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2021 prepared in accordance with the International Financial Reporting Standards in 2021.

VII. SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company's auditor, Messrs. Mazars CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

VIII. FINAL DIVIDEND

The Board proposes to distribute a final cash dividend (the **"2021 Final Dividend"**) of RMB0.100 per share (tax inclusive), totalling RMB102,911,100 (tax inclusive) to all Shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Monday, 11 July 2022, subject to the approval by the Shareholders at the 2021 annual general meeting (the **"2021 Annual General Meeting"**) intended to be held by the Company on Wednesday, 29 June 2022. 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 2021 Annual General Meeting. The expected 2021 Final Dividend distribution date is Tuesday, 16 August 2022.

The proposal regarding the distribution of 2021 Final Dividend shall be confirmed subject to the approval by Shareholders at the 2021 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%.

IX. CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining H shareholders' entitlement to attend the 2021 Annual General Meeting, the H share register of shareholders of the Company will be closed from Wednesday, 8 June 2022 to Wednesday, 29 June 2022 (both days inclusive), during which no transfer of shares will be registered. In order to attend the 2021 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 Tuesday, 7 June 2022. The H share shareholders of the Company whose names appear on the Company's register of shareholders for H shares as at Wednesday, 29 June 2022 are entitled to attend the 2021 Annual General Meeting.

In order to determine the shareholders who are entitled to receive the 2021 Final Dividend subject to the approval by the shareholders of the Company at the 2021 Annual General Meeting, the register of members of the Company will be closed from Wednesday, 6 July 2022 to Monday, 11 July 2022 (both days inclusive). To be eligible to receive the final dividend for the year ended 31 December 2021 (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 Tuesday, 5 July 2022.

X. PUBLICATION OF ANNUAL REPORT

The annual report for the year ended 31 December 2021 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com).

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

Kunming, the PRC, 25 March 2022

As of the date of this announcement, the Board comprises Mr. Zeng Feng, 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, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.