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**KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED**

**康達國際環保有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6136)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**HIGHLIGHTS**

- Revenue was approximately RMB2,919.0 million, representing a decrease of approximately 12% over the last year owing to the decrease in revenue from construction services.
- Gross profit was RMB1,335.3 million, representing an increase of approximately 1% over the last year. Gross profit margin was approximately 46%, representing a sharp increase of 6 percentage points over the last year contributed by the increase in the portion of revenue from operating services and financial income.
- Earnings before interest, taxes, depreciation and amortization was RMB1,188.2 million, decreased by approximately 4% from RMB1,241.0 million of the last year.
- Profit attributable to owners of the parent was approximately RMB412.8 million, representing a decrease of approximately 12% as compared to the previous corresponding period.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year were RMB19.29 cents, representing a decrease of approximately 14% as compared with RMB22.39 cents of the last year.
- For the year ended 31 December 2021, the actual aggregate processing volume reached 1,262.4 million tonnes, representing an increase of approximately 11% as compared with 1,133.6 million tonnes of the last year.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2021.

The board (the “Board”) of directors (the “Directors”) of Kangda International Environmental Company Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020 as follows:

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

*Year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>REVENUE</b>	3	<b>2,918,958</b>	3,332,432
Cost of sales		<u><b>(1,583,680)</b></u>	<u>(2,006,795)</u>
Gross profit		<b>1,335,278</b>	1,325,637
Other income and gains	4	<b>106,557</b>	107,157
Selling and distribution expenses		<b>(1,117)</b>	(2,530)
Administrative expenses		<b>(245,965)</b>	(217,593)
Other expenses		<b>(76,400)</b>	(35,902)
Finance costs	5	<b>(565,688)</b>	(561,781)
Share of profits and losses of:			
Associates		<b>(270)</b>	(2,688)
Joint ventures		<u><b>(2,150)</b></u>	<u>(4,761)</u>
<b>PROFIT BEFORE TAX</b>	6	<b>550,245</b>	607,539
Income tax expense	7	<u><b>(132,064)</b></u>	<u>(137,282)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>418,181</b></u>	<u>470,257</u>
Attributable to:			
Owners of the parent	8	<b>412,752</b>	470,488
Non-controlling interests		<u><b>5,429</b></u>	<u>(231)</u>
		<u><b>418,181</b></u>	<u>470,257</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic for profit for the year (expressed in RMB per share)	8	<u><b>19.29 cents</b></u>	<u>22.39 cents</u>
Diluted for profit for the year (expressed in RMB per share)	8	<u><b>19.29 cents</b></u>	<u>22.39 cents</u>

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

*Year ended 31 December 2021*

	<b>2021</b>	2020
	<i>RMB'000</i>	<i>RMB'000</i>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<b>(90,000)</b>	(25,000)
Income tax effect	<b>13,500</b>	3,750
	<u><b>(76,500)</b></u>	<u>(21,250)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u><b>(76,500)</b></u>	<u>(21,250)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		
	<u><b>(76,500)</b></u>	<u>(21,250)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		
	<u><b>341,681</b></u>	<u>449,007</u>
Attributable to:		
Owners of the parent	<b>336,252</b>	449,238
Non-controlling interests	<b>5,429</b>	(231)
	<u><b>341,681</b></u>	<u>449,007</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2021*

	<i>Notes</i>	<b>2021</b>	2020
		<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>66,784</b>	119,472
Investment properties		<b>12,094</b>	12,970
Right-of-use assets		<b>1,718</b>	1,887
Investments in associates		<b>376,773</b>	375,239
Investments in joint ventures		<b>82,009</b>	84,159
Equity investments designated at fair value through other comprehensive income		<b>248,000</b>	338,000
Service concession intangible assets		<b>1,084,506</b>	1,133,188
Other intangible assets		<b>2,577</b>	3,436
Goodwill		<b>58,325</b>	60,219
Financial receivables	9	<b>9,100,153</b>	8,313,899
Deferred tax assets		<b>96,409</b>	81,036
Prepayments, other receivables and other assets		<b>120,765</b>	173,457
Contract assets	10	<b>1,649,274</b>	2,074,910
		<hr/> <b>12,899,387</b> <hr/>	<hr/> 12,771,872 <hr/>
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories		<b>17,077</b>	14,834
Contract assets	10	<b>323,761</b>	222,337
Financial receivables	9	<b>1,878,059</b>	1,692,798
Trade and bills receivables	11	<b>1,776,560</b>	1,527,023
Prepayments, other receivables and other assets		<b>734,365</b>	617,705
Pledged deposits		<b>333,870</b>	215,550
Cash and cash equivalents		<b>289,898</b>	430,262
Other current financial assets		<b>28,431</b>	153,449
		<hr/> <b>5,382,021</b> <hr/>	<hr/> 4,873,958 <hr/>
Total current assets			
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	<b>2,056,753</b>	2,058,172
Other payables and accruals		<b>247,192</b>	217,116
Deferred income		<b>7,027</b>	1,260
Interest-bearing bank and other borrowings	13	<b>3,197,997</b>	1,934,372
Corporate bonds		<b>–</b>	327,262
Tax payable		<b>58,491</b>	41,955
		<hr/> <b>5,567,460</b> <hr/>	<hr/> 4,580,137 <hr/>
Total current liabilities			

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

31 December 2021

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>(185,439)</u>	<u>293,821</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>12,713,948</b></u>	<u>13,065,693</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade payables	<i>12</i>	<b>62</b>	1,756
Interest-bearing bank and other borrowings	<i>13</i>	<b>6,271,742</b>	6,754,171
Corporate bonds		–	256,985
Deferred income		<b>1,930</b>	1,260
Other payables and accruals		<b>30,991</b>	23,063
Deferred tax liabilities		<b>1,001,602</b>	910,260
Total non-current liabilities		<u><b>7,306,327</b></u>	<u>7,947,495</u>
Net assets		<u><b>5,407,621</b></u>	<u>5,118,198</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital		<b>17,125</b>	17,125
Reserves		<b>5,252,881</b>	4,901,605
		<u><b>5,270,006</b></u>	<u>4,918,730</u>
Non-controlling interests		<u><b>137,615</b></u>	<u>199,468</u>
Total equity		<u><b>5,407,621</b></u>	<u>5,118,198</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for equity investments designed at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Going concern

As at 31 December 2021, the Group’s current liabilities exceeded its current assets by approximately RMB185,439,000 (31 December 2020: net current assets: RMB293,821,000). In addition, the Group has contracted capital commitments of RMB198,144,000 and commitments in respect of service concession arrangements of RMB2,442,938,000. Part of such commitments is expected to be due in the foreseeable future. The directors of the Company have considered the Group’s available sources of funds as at the date of approval of these consolidated financial statements, which are as follows:

- Unutilised banking facilities available to the Group that the directors of the Company are confident of them being able to be continuously renewed upon their respective expirations in the foreseeable future based on the Group’s past experience and good credit standing;
- Unutilised facilities to issue domestic short-term notes by the Group as approved by the relevant PRC government authorities;
- Cash inflows arising from the Group’s activities subsequent to 31 December 2021; and
- Other available sources of financing from banks, financial institutions and other institutions given the Group’s credit history.

In light of the available funding as mentioned above, and after taking into account the operating performance of the Group and cash flow projection prepared by the directors of the Company. The directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations and operation requirements in the foreseeable future of at least up to 31 December 2022. Hence the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements under the going concern basis.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## 1.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's consolidated financial statements.

Amendments to IFRS 9, IAS 39,  
IFRS 7, IFRS 4 and IFRS 16

Amendment to IFRS 16

*Interest Rate Benchmark Reform — Phase 2*

*Covid-19-Related Rent Concessions beyond 30 June 2021*  
(early adopted)

## 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in United States dollars based on the London Interbank Offered Rate (“LIBOR”) as at 31 December 2021. For the LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met. Additional information about the transition and the associated risks is disclosed in the financial statements.

- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

## 2. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) the segment of Urban Water Treatment engages in the design, construction, upgrade and operation of waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), sludge treatment plants (the "STPs") and water distribution plants (the "WDPs"), and in the operation and maintenance of waste water treatment facilities entrusted by governments ("O&M");
- (b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction; and
- (c) the segment of Rural Water Improvement engages in the construction and operation related to "the Water Environment Facilities of Beautiful Village" such as: waste water treatment facilities and pipeline construction for collecting waste water so as to achieve rural living environment improvement.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that unallocated income and gains, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets exclude investment properties, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, unallocated pledged deposits, unallocated cash and cash equivalents, unallocated investments in associates and a joint venture and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude corporate bonds, unallocated other payables and accruals, lease liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2021	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Segment revenue</b>				
Sales to external customers	2,668,356	147,690	102,912	2,918,958
	2,668,356	147,690	102,912	2,918,958
<b>Segment results</b>	715,981	44,609	21,072	781,662
<i>Reconciliation:</i>				
Unallocated income and gains				23,525
Share of profits and losses of unallocated associates				1,392
Share of profit and loss of an unallocated joint venture				(1,821)
Corporate and other unallocated expenses				(38,838)
Unallocated lease-related finance costs				(98)
Unallocated finance costs (other than interest on lease liabilities)				(215,577)
Profit before tax				550,245
<b>Segment assets</b>	15,424,670	1,215,755	696,706	17,337,131
<i>Reconciliation:</i>				
Corporate and other unallocated assets				944,277
Total assets				18,281,408
<b>Segment liabilities</b>	11,763,185	496,509	492,470	12,752,164
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				121,623
Total liabilities				12,873,787

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2021	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Other segment information</b>				
Investments in associates	–	230,929	–	230,929
Unallocated investments in associates				145,844
Investment in a joint venture	72,472	–	–	72,472
Unallocated investment in a joint venture				9,537
Share of profits and losses of associates	–	(1,662)	–	(1,662)
Share of profits and losses of unallocated associates				1,392
Share of profit and loss of a joint venture	(329)	–	–	(329)
Share of profit and loss of an unallocated joint venture				(1,821)
Impairment losses recognised in profit or loss, net	(30,029)	(15,084)	–	(45,113)
Depreciation and amortisation	62,408	123	6,560	69,091
Unallocated depreciation and amortisation				3,192
Total depreciation and amortisation				<u>72,283</u>
Capital expenditure	104,783	–	88,290	193,073
Unallocated amounts				70
Total capital expenditure*				<u>193,143</u>

\* Capital expenditure consists of additions to property, plant and equipment and service concession contract assets.

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>				
Sales to external customers	2,899,601	311,661	121,170	3,332,432
	2,899,601	311,661	121,170	3,332,432
<b>Segment results</b>	790,451	70,130	19,348	879,929
<i>Reconciliation:</i>				
Unallocated income and gains				39,008
Share of profits and losses of unallocated associates				(1,275)
Share of profit and loss of an unallocated joint venture				(2,450)
Corporate and other unallocated expenses				(51,745)
Unallocated lease-related finance costs				(237)
Unallocated finance costs (other than interest on lease liabilities)				(255,691)
Profit before tax				607,539
<b>Segment assets</b>	14,467,713	1,391,395	724,220	16,583,328
<i>Reconciliation:</i>				
Corporate and other unallocated assets				1,062,502
Total assets				17,645,830
<b>Segment liabilities</b>	10,801,996	519,291	531,704	11,852,991
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				674,641
Total liabilities				12,527,632

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Other segment information</b>				
Investments in associates	–	230,787	–	230,787
Unallocated investments in associates				144,452
Investment in a joint venture	72,801	–	–	72,801
Unallocated investment in a joint venture				11,358
Share of profits and losses of associates	–	(1,413)	–	(1,413)
Share of profits and losses of unallocated associates				(1,275)
Share of profit and loss of a joint venture	(2,311)	–	–	(2,311)
Share of profit and loss of an unallocated joint venture				(2,450)
Impairment losses recognised in the consolidated statement of profit or loss and other comprehensive income, net	(23,995)	(8,543)	–	(32,538)
Depreciation and amortisation	61,260	131	3,552	64,943
Unallocated depreciation and amortisation				6,764
Total depreciation and amortisation				<u>71,707</u>
Capital expenditure	127,924	–	119,489	247,413
Unallocated amounts				48
Total capital expenditure*				<u>247,461</u>

\* Capital expenditure consists of additions to property, plant and equipment and service concession contract assets.

## 2. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

#### (a) Revenue from external customers

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mainland China	<u>2,918,958</u>	<u>3,332,432</u>

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mainland China	<u>12,802,978</u>	<u>12,690,836</u>

All the non-current assets are located in Mainland China. The non-current asset information above excludes deferred tax assets.

### Information about major customers

The revenue derived from the Group's two largest customers during the year is as follows:

#### Year ended 31 December 2021

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer A	229,661	229,661
Customer C	<u>206,772</u>	<u>206,772</u>
	<u>436,433</u>	<u>436,433</u>

#### Year ended 31 December 2020

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer A	527,121	527,121
Customer B	<u>185,225</u>	<u>185,225</u>
	<u>712,346</u>	<u>712,346</u>

### 3. REVENUE

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the “Grantors”) on a Build-Operate-Transfer (“BOT”) or a Transfer-Operate-Transfer (“TOT”) basis in respect of its WTPs, RWTPs, WDPs, STPs or other municipal infrastructure. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating WTPs, RWTPs, WDPs, STPs or other municipal infrastructure on behalf of the Grantors for periods ranging from 17 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 carries out construction works of other municipal infrastructure under engineering procurement construction (“EPC”) arrangements and agrees with EPC customers to enter into a settled agreement for the construction work during the construction.

Revenue represents: (i) an appropriate proportion of contract revenue from construction contracts under BOT arrangements, EPC arrangements and other construction service projects, net of tax and government surcharges; (ii) revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under BOT arrangements and TOT arrangements and the provision of Operation and Maintenance services; (iii) revenue from sales of water purifying materials; and (iv) financial income on financial receivables. The amounts of each of the significant categories of revenue during the year are as follows:

#### Revenue from contracts with customers

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from operating services	1,200,545	1,046,264
Revenue from construction services	1,008,451	1,613,074
Revenue from sales of water purifying materials	–	12,045
Financial income	<u>709,962</u>	<u>661,049</u>
	<u><b>2,918,958</b></u>	<u><b>3,332,432</b></u>

### 3. REVENUE (continued)

#### Revenue from contracts with customers (continued)

##### (a) Disaggregated revenue information

For the year ended 31 December 2021

Segments	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>	<b>2,668,356</b>	<b>147,690</b>	<b>102,912</b>	<b>2,918,958</b>
<b>Geographical market</b>				
Mainland China	2,668,356	147,690	102,912	2,918,958
Total revenue from contracts with customers	2,668,356	147,690	102,912	2,918,958
<b>Timing of revenue recognition</b>				
Services transferred over time	2,668,356	147,690	102,912	2,918,958
Total revenue from contracts with customers	2,668,356	147,690	102,912	2,918,958

For the year ended 31 December 2020

Segments	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>	<b>2,899,601</b>	<b>311,661</b>	<b>121,170</b>	<b>3,332,432</b>
<b>Geographical market</b>				
Mainland China	2,899,601	311,661	121,170	3,332,432
Total revenue from contracts with customers	2,899,601	311,661	121,170	3,332,432
<b>Timing of revenue recognition</b>				
Goods transferred at a point in time	12,045	–	–	12,045
Services transferred over time	2,887,556	311,661	121,170	3,320,387
Total revenue from contracts with customers	2,899,601	311,661	121,170	3,332,432

### 3. REVENUE (continued)

#### Revenue from contracts with customers (continued)

##### (a) Disaggregated revenue information (continued)

Revenue from construction services, operating services of waste water treatment, reclaimed water treatment, water distribution and sludge treatment and financial income are recognised over time. For sales of water purifying materials in operating services, revenue is recognised at a point in time.

##### (b) Performance obligations

The aggregate amount of the transaction prices allocated to the performance obligations of BOT and TOT arrangements that are unsatisfied (or partially unsatisfied) as at 31 December 2021 was RMB38 billion(2020: RMB36 billion). The performance obligations expected to be recognised in more than one year relate to the services to be performed in respect of the BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

### 4. OTHER INCOME AND GAINS

	2021 RMB'000	2020 RMB'000
Government grants*	60,491	49,958
Interest income from loans to third parties	22,869	18,099
Investment income from other current financial assets	8,508	26,246
Foreign exchange differences, net	7,250	5,557
Bank interest income	2,557	4,665
Interest income from loans to a joint venture	700	820
Rental income less depreciation of investment properties	490	536
Others	3,692	1,276
	<u>106,557</u>	<u>107,157</u>

\* Government grants primarily represented the value-added tax refund and the environmental protection funds for environmental technological improvements granted by government authorities. Certain environmental protection funds related to the upgrading of WTPs granted by government authorities are recognised as deferred income that is recognised in profit or loss on a systematic basis over the expected upgrade interval cycle. There are no unfulfilled conditions or contingencies relating to these grants.

### 5. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on interest-bearing bank and other borrowings	536,451	484,890
Interest on corporate bonds	29,139	76,654
Interest on lease liabilities	98	237
	<u>565,688</u>	<u>561,781</u>

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 RMB'000
Cost for construction services		<b>824,663</b>	1,333,485
Cost for operation services		<b>759,017</b>	662,144
Cost for sales of water purifying materials		–	11,166
		<u>1,583,680</u>	<u>2,006,795</u>
Depreciation of property, plant and equipment		<b>6,814</b>	10,471
Depreciation of right-of-use assets		<b>283</b>	1,932
Amortisation of service concession intangible assets		<b>63,925</b>	57,870
Amortisation of other intangible assets		<b>385</b>	501
Impairment of goodwill <sup>#</sup>		<b>1,894</b>	–
Impairment of financial receivables	9	<b>452</b>	1,801
Impairment of contract assets	10	<b>962</b>	403
Impairment of trade receivables	11	<b>26,404</b>	22,459
Impairment of other receivables		<b>17,295</b>	7,875
Lease payments not included in the measurement of lease liabilities		<b>286</b>	409
Auditor's remuneration		<b>2,826</b>	2,850
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		<b>241,038</b>	229,278
Pension scheme contributions (defined contribution scheme)*		<b>23,293</b>	5,992
		<u>264,331</u>	<u>235,270</u>
Total employee benefit expense		<b>264,331</b>	235,270
Operating lease income		<b>(1,366)</b>	(1,469)
Less: Depreciation of investment properties		<b>876</b>	933
Rental income less depreciation of investment properties	4	<b>(490)</b>	(536)
Bank interest income	4	<b>(2,557)</b>	(4,665)
Government grants	4	<b>(60,491)</b>	(49,958)
Interest income from loans to third parties	4	<b>(22,869)</b>	(18,099)
Interest income from loans to a joint venture	4	<b>(700)</b>	(820)
Investment income from other current financial assets	4	<b>(8,508)</b>	(26,246)
Loss on disposal of items of property, plant and equipment, net		<b>478</b>	11
Loss on disposal of subsidiaries		<b>4,530</b>	708
Foreign exchange differences, net	4	<b>(7,250)</b>	(5,557)
Gains on disposal of service concession intangible assets, net		<b>(694)</b>	–

<sup>#</sup> The impairment of goodwill is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current		
— Mainland China	44,342	34,249
Deferred	<u>87,722</u>	<u>103,033</u>
Total tax charge for the year	<u><u>132,064</u></u>	<u><u>137,282</u></u>

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,139,735,000 (2020: 2,100,877,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

The calculations of basic and diluted earnings per share are based on:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Earnings:</b>		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	<u>412,752</u>	<u>470,488</u>
	<b>Number of shares</b>	
	2021	2020
<b>Shares:</b>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>2,139,735,000</u>	<u>2,100,877,000</u>

## 9. FINANCIAL RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Receivables for service concession arrangements	<b>10,980,465</b>	10,008,498
Impairment	<b>(2,253)</b>	(1,801)
	<b>10,978,212</b>	10,006,697
Portion classified as current assets	<b>(1,878,059)</b>	(1,692,798)
Non-current portion	<b>9,100,153</b>	8,313,899

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs or STPs and were recognised to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the Grantor.

Financial receivables were unbilled receivables, mainly due from governmental authorities in Mainland China, as the Grantors in respect of the Group's service concession arrangements. The Group does not hold any collateral or other credit enhancements over these balances. Financial receivables represent contract assets as the rights to considerations have yet to be unconditional.

The movements in the loss allowance for impairment of financial receivables are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	<b>1,801</b>	–
Impairment losses	<b>452</b>	1,801
At end of year	<b>2,253</b>	1,801

An impairment analysis is performed at each reporting date using a provision matrix. The provision matrix is initially based on the probabilities of default rates which are estimated based on historical observed default rates and published credit ratings of credit bonds issued in Mainland China. The calculation reflects the probability-weighted outcome, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information.

The increase in the loss allowance was due to the increase in the gross carrying amount of the receivables for service concession arrangements mainly attributable to the commencement of operations of BOT projects.

As at 31 December 2021, the Group's financial receivables with a carrying value of RMB7,120,278,000 (2020: RMB7,168,543,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

## 10. CONTRACT ASSETS

	<b>31 December 2021 RMB'000</b>	31 December 2020 RMB'000
Contract assets arising from:		
Construction services	<b>1,974,400</b>	2,297,650
Impairment	<u>(1,365)</u>	<u>(403)</u>
	<u><b>1,973,035</b></u>	<u>2,297,247</u>
Proportion classified as current assets	<u>(323,761)</u>	<u>(222,337)</u>
Non-current portion	<u><b>1,649,274</b></u>	<u>2,074,910</u>

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to intangible assets and contract assets included in financial receivables under service concession arrangements and operating concession for BOT arrangements and trade receivables for other construction contracts when the rights to considerations are unconditional. The decrease in contract assets in 2021 was the result of completion of construction services.

The movements in the loss allowance for impairment of contract assets are as follows:

	<b>2021 RMB'000</b>	2020 RMB'000
At beginning of the year	<b>403</b>	–
Impairment losses, net	<u><b>962</b></u>	<u>403</u>
At end of the year	<u><b>1,365</b></u>	<u>403</u>

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on default rates and published credit ratings of credit bonds issued in Mainland China. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information.

At 31 December 2021, the Group's contract assets with a carrying value of RMB274,223,000 (2020: RMB552,464,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

Included in the Group's contract assets are amounts due from the Group's associates of RMB114,141,000 (2020: RMB4,413,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

## 11. TRADE AND BILLS RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	1,820,962	1,555,762
Bills receivable	–	627
Impairment	<u>(44,402)</u>	<u>(29,366)</u>
	<u><b>1,776,560</b></u>	<u><b>1,527,023</b></u>

The Group's major customers are the PRC government authorities or agencies. The Group not only provides construction service and operation service pursuant to its service concession arrangements, but also provides construction service under other construction service projects.

Trade and bills receivables represent the unsettled amounts being billed to the customers in accordance with the terms specified in the contracts governing the relevant transactions. The Group does not have a standardised and universal credit period granted to the construction service customers. The credit period for individual customers of construction service is considered on a case-by-case basis. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of nil (2020: nil) and RMB209,649,000 (2020: 225,254,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2021, the Group's trade receivables with a carrying value of RMB777,488,000 (2020: RMB748,253,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	411,569	432,308
4 to 6 months	241,979	245,572
7 to 12 months	401,819	287,593
Over 12 months	<u>721,193</u>	<u>560,923</u>
	<u><b>1,776,560</b></u>	<u><b>1,526,396</b></u>

## 11. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of the year	29,366	7,265
Impairment losses, net	26,404	22,459
Amount written off as uncollectible	<u>(11,368)</u>	<u>(358)</u>
At end of the year	<u><u>44,402</u></u>	<u><u>29,366</u></u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

### As at 31 December 2021

	Within 3 months	4 to 6 months	7 to 12 months	Over 12 months	Total
Expected credit loss rate	0.52%	1.75%	1.02%	4.48%	2.44%
Gross carrying amount (RMB'000)	413,707	246,296	405,972	754,987	1,820,962
Expected credit losses (RMB'000)	2,138	4,317	4,153	33,794	44,402

### As at 31 December 2020

	Within 3 months	4 to 6 months	7 to 12 months	Over 12 months	Total
Expected credit loss rate	0.52%	0.82%	1.20%	3.70%	1.89%
Gross carrying amount (RMB'000)	434,583	247,597	291,094	582,488	1,555,762
Expected credit losses (RMB'000)	2,275	2,025	3,501	21,565	29,366

## 12. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and are set out in the supplier contracts.

For retention money payables included in trade payables, in respect of guarantees granted by the suppliers, the due dates usually range from one to two years after the completion of the construction work or the preliminary acceptance of equipment.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Bills payable ( <i>note (a)</i> )	217,595	177,334
TOT payables ( <i>note (b)</i> )	3,985	3,985
Trade payables	<u>1,835,235</u>	<u>1,878,609</u>
	<u><b>2,056,815</b></u>	<u><b>2,059,928</b></u>
Less: Non-current portion	<u>62</u>	<u>1,756</u>
Current portion	<u><b>2,056,753</b></u>	<u><b>2,058,172</b></u>

*Notes:*

- (a) As at 31 December 2021, the Group's bills payable were secured by the pledged deposits amounting to RMB228,224,000 (2020: RMB169,305,000).
- (b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of the year.

An ageing analysis of the Group's trade and bills payables as at the end of the year is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	448,342	654,033
4 to 6 months	392,028	467,291
7 to 12 months	434,152	424,537
Over 12 months	<u>782,293</u>	<u>514,067</u>
	<u><b>2,056,815</b></u>	<u><b>2,059,928</b></u>

The carrying amounts of the current portion of the trade and bills payables approximate to their fair values.

Included in the Group's trade and bills payables are amounts due to the Group's associates of RMB10,120,000 (2020: RMB9,622,000).

### 13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2021			31 December 2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities	4.91	2022	335	4.91	2021	310
Bank loans						
— secured	3.45-4.35	2022	462,300	4.35-6.72	2021	986,204
Bank loans						
— unsecured	3.85-7.08	2022	1,033,290	3.85-4.90	2021	38,043
Current portion of long term bank loans						
— secured	4.60-6.50	2022	562,448	3.75-6.18	2021	582,369
Current portion of long term bank loans						
— unsecured	4.55-6.18	2022	791,783	—	2021	—
Current portion of long term other loans						
— secured	5.60-6.65	2022	305,211	4.50-9.90	2021	302,533
Current portion of long term other loans						
— unsecured	4.35-8.43	2022	42,630	4.20-7.80	2021	24,913
			<u>3,197,997</u>			<u>1,934,372</u>
Non-current						
Lease liabilities	4.91	2023-2039	1,875	4.91	2022-2039	1,931
Long term bank loans						
— secured	4.25-6.50	2023-2045	4,075,765	3.75-6.18	2022-2045	4,368,344
Long term bank loans						
— unsecured	4.90-5.30	2023	319,141	4.55-4.99	2022-2023	647,676
Long term other loans						
— secured	5.60-6.65	2023-2026	880,115	2.80-9.90	2022-2026	1,141,220
Long term other loans						
— unsecured	1.20-8.43	2023-2026	994,846	1.20-7.80	2022-2026	595,000
			<u>6,271,742</u>			<u>6,754,171</u>
			<u>9,469,739</u>			<u>8,688,543</u>
Interest-bearing bank and other borrowings denominated in						
— RMB			9,024,961			8,313,318
— United States dollars			444,778			375,225
			<u>9,469,739</u>			<u>8,688,543</u>

### 13. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	3,197,997	1,934,372
In the second year	2,011,492	2,189,312
In the third to fifth years, inclusive	1,984,763	1,928,371
Beyond five years	2,275,487	2,636,488
	<u>9,469,739</u>	<u>8,688,543</u>

The above secured interest-bearing bank and other borrowings are secured by certain assets with carrying values as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Property, plant and equipment	13,619	15,447
Financial receivables ( <i>note 9</i> )	7,120,278	7,168,543
Trade and bills receivables ( <i>note 11</i> )	777,488	748,253
Pledged deposits	67,430	–
Service concession intangible assets	1,033,590	937,310
Contract assets ( <i>note 10</i> )	274,223	552,464

The Group's interest-bearing bank and other borrowings of RMB2,599,726,000 (2020: RMB2,164,284,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB693,290,000 (2020: RMB1,427,068,000) were secured by the second largest shareholder.

### 14. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2021.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the year ended 31 December 2021 (the “Reporting Period”), the Group’s principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the operation and maintenance of wastewater treatment facilities entrusted by governments (the “O&M”). The Group’s business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the “PPP”), Build-Own-Operate (the “BOO”), Engineering-Procurement- Construction (the “EPC”) and O&M. The Group had 101 service concession arrangement projects under operation while its operational treatment capacity was over 4 million tons per day as at 31 December 2021.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body treatment and sponge city construction. The Group engages in Water Environment Comprehensive Remediation by executing previously signed contracts of PPP and EPC.

The scope of Rural Water Improvement includes the construction and operation related to “the Water Environment Facilities of Beautiful Village” such as: wastewater treatment facilities and pipeline construction for collecting wastewater so as to achieve rural living environment improvement. The Group started to carry out this business since 2016 by executing the contracts of PPP.

In the future, the Group will continuously focus on the business of Urban Water Treatment to get steady cash flows and invest in high-quality, value-adding upstream and downstream businesses of water industry. The Group is very confident about the Group’s prospects and future profitability and we will dedicate more efforts to enhance the profitability and effectiveness of the Group.

## 1.1 Urban Water Treatment

As at 31 December 2021, the Group had entered into a total of 113 service concession arrangements projects, including 107 wastewater treatment plants, 1 water distribution plant, 3 sludge treatment plants and 2 reclaimed water treatment plants. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

Analysis of the Group's projects on hand as at 31 December 2021 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
<i>(Tonnes)</i>					
In operation	3,961,500	–	65,000	550	4,027,050
Not yet start operation/ Not yet transferred	305,500	30,000	–	–	335,500
Total	<u>4,267,000</u>	<u>30,000</u>	<u>65,000</u>	<u>550</u>	<u>4,362,550</u>
<i>(Number of projects)</i>					
In operation	96	–	2	3	101
Not yet start operation/ Not yet transferred	11	1	–	–	12
Total	<u>107</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>113</u>

	<b>Number of projects</b>	<b>Treatment capacity (Tonnes/Day)</b>	<b>Actual processing volume during the year ended 31 December 2021 (Million Tonnes)</b>
<b>Wastewater treatment services</b>			
Shandong	47	1,270,000	351.0
Henan	23	1,060,000	339.6
Heilongjiang	6	425,000	152.1
Shanxi	2	350,000	102.9
Zhejiang	2	250,000	90.8
Guangdong	4	220,000	57.7
Anhui	3	175,000	54.2
Jiangsu	6	102,000	30.3
Other provinces/municipalities*	14	415,000	79.6
	107	4,267,000	1,258.2
<b>Water distribution services</b>	1	30,000	–
<b>Reclaimed water treatment services</b>	2	65,000	4.2
<b>Total</b>	<b>110</b>	<b>4,362,000</b>	<b>1,262.4</b>
<b>Sludge treatment services</b>	3	550	–
<b>Total</b>	<b>113</b>	<b>4,362,550</b>	<b>1,262.4</b>

\* Other provinces/municipalities include Beijing, Tianjin, Hebei, Jilin, Liaoning, Shaanxi, Sichuan and Fujian.

### *1.1.1 Operation Services*

As at 31 December 2021, the Group had 96 wastewater treatment projects, 2 reclaimed water treatment projects and 3 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plants, and sludge treatment plants in operation for the year ended 31 December 2021 reached 3,961,500 tonnes (2020: 3,766,500 tonnes), 65,000 tonnes(2020: 65,000 tonnes), and 550 tonnes (2020: 550 tonnes), respectively. For the year ended 31 December 2021, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 86% (2020: 83%). The actual average water treatment tariff for the year ended 31 December 2021 was approximately RMB1.49 per tonne (2020: approximately RMB1.46 per tonne).The actual aggregate processing volume for the year ended 31 December 2021 was 1,262.4 million tonnes, representing an increase of 11% as compared to the same period last year (year ended 31 December 2020: 1,133.6 million tonnes), which was in line with the increase in treatment capacity.

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2021 was RMB1,185.9 million, representing an increase of approximately 13% as compared to the same period of last year (year ended 31 December 2020: RMB1,053.4 million). The corresponding increase was primarily due to the increase in the number of commencement of operation of new water treatment projects through construction.

### *1.1.2 Construction Services*

The Group entered into a number of service concession arrangements under BOT, BOO and PPP contracts in relation to its Urban Water Treatment business. Under the International Financial Reporting Interpretation Committee 12 Service Concession Arrangements, the Group recognises the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue from BOT, BOO, PPP and EPC projects is recognised by using the percentage-of-completion method.

For the year ended 31 December 2021, construction revenue was recognised for 25 projects, including 20 wastewater treatment plants, 2 water distribution plants, 1 reclaimed water treatment plant, and 2 sludge treatment plants, which were mainly located in Shandong, Shanxi provinces, and the city of Tianjin in Mainland China. Total construction revenue of those projects for the year ended 31 December 2021 was RMB780.7 million, representing a year-on-year decrease of approximately 35% (year ended 31 December 2020: RMB1,192.9 million). The corresponding decrease was primarily due to a decrease in the project numbers during the main construction period. As at 31 December 2021, the total daily treatment capacity of the service concession arrangements plants, which were still in the construction stage, was 210,500 tonnes, including 180,500 tonnes of wastewater treatment plants and 30,000 tonnes of water distribution plants.

## **1.2 Water Environment Comprehensive Remediation**

In the year of 2021, the Group continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 31 December 2021, most of the projects have been completed. The Group devoted efforts to lower the risk and enhance the reasonable profit for the existing projects. The Group will integrate resources to execute the Water Environment Comprehensive Remediation projects under the contracts of EPC and O&M.

The Group had 7 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2021. The projects were mainly located in Jiangxi and Shandong provinces in Mainland China. For the year ended 31 December 2021, total revenue of those projects was RMB147.7 million, representing a year-on-year decrease of approximately 53% (year ended 31 December 2020: RMB311.7 million). The corresponding decrease was primarily due to the completion of partial existing EPC projects.

## **1.3 Rural Water Improvement**

In the year of 2021, the Group disposed 1 Rural Water Improvement project in Guizhou province. As at 31 December 2021, the existing 2 projects of Rural Water Improvement which were under construction were located in Guangdong provinces in Mainland China. For the year ended 31 December 2021, total revenue of those projects was RMB102.9 million, representing a year-on-year decrease of approximately 15% (year ended 31 December 2020: RMB121.2 million). The corresponding decrease was primarily due to net impact of the decrease in the construction work of existing projects and the increased operation revenue due to the partial operation of these two projects.

## **FINANCIAL ANALYSIS**

### **Revenue**

For the year ended 31 December 2021, the Group recorded a revenue of RMB2,919.0 million, representing a decrease of approximately 12% as compared to the previous corresponding period of RMB3,332.4 million. The decrease was mainly due to the decrease in construction revenue of RMB604.6 million, which was partially offset by the increase in operation revenue of RMB142.2 million, and the increase in financial income of RMB49.0 million. The decrease in construction revenue was mainly due to the decrease in the number of projects during the main construction period of Urban Water Treatment services, and the completion of partial existing EPC projects of Water Environment Comprehensive Remediation services. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income was mainly due to the increase in the financial assets.

### **Cost of Sales**

The Group's cost of sales for the year ended 31 December 2021 amounted to RMB1,583.7 million, including construction costs of RMB824.7 million and operation costs of water treatment plants of RMB759.0 million, representing a decrease of approximately 21% as compared to the previous corresponding period of RMB2,006.8 million. The decrease was due to the decrease in construction costs. The decrease in construction costs was mainly due to the decrease in the construction work of existing projects which was in line with the decrease in construction revenue. The increase in operation cost was in line with the increase of daily wastewater treatment capacity.

### **Gross Profit Margin**

For the year ended 31 December 2021, the Group's gross profit margin was approximately 46%, representing an increase of 6 percentage points as compared to the previous corresponding period of approximately 40%. The increase was primarily due to the increase in the proportion of operation revenue and financial income recognized in this period.

## **Other Income and Gains**

The Group recorded other income and gains of RMB106.6 million for the year ended 31 December 2021, representing a minor decrease as compared to the previous corresponding period of RMB107.2 million. The amount for the Reporting Period primarily included government grants of RMB60.5 million, which mainly comprised of VAT refund under “Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (Cai Shui [2015] No. 78)”\* (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知 (財稅[2015] 78號文)) and grants for environmental protection, bank interest income of RMB2.6 million, interest income of RMB23.6 million from loans to third parties and a joint venture, gains on foreign exchanges of RMB7.3 million, other investment income of RMB8.5 million.

## **Selling and Distribution Expenses**

The Group’s selling and distribution expenses for the year ended 31 December 2021 was RMB1.1 million, representing a significant decrease of approximately 56% as compared to RMB2.5 million in the previous corresponding period, which was a result of stringent management and cost control.

## **Administrative Expenses**

The Group’s administrative expenses for the year ended 31 December 2021 was RMB246.0 million, representing an increase of approximately 13% as compared to the previous corresponding period of RMB217.6 million. The increase was mainly due to the increase in staff costs and professional fees. The increase in staff costs was primarily due to the increased numbers of operating wastewater treatment plants.

## **Other Expenses**

Other expenses for the year ended 31 December 2021 was RMB76.4 million, representing a large increase as compared to the previous corresponding period of RMB35.9 million. The increase was mainly due to increase in impairment losses, non-operating expenses, and losses on disposal of subsidiaries recognised in the Reporting Period.

\* For identification purposes only

## **Finance Costs**

The Group's finance costs for the year ended 31 December 2021 of RMB565.7 million mainly comprised interests on interest-bearing bank and other borrowings and corporate bonds, representing a slight increase as compared to RMB561.8 million in the previous corresponding period. The increase in finance costs was mainly due to the increase of average interest-bearing bank and other borrowing and corporate bonds. The average balance of interest-bearing bank and other borrowings and corporate bonds increased by RMB180.2 million and the average interest rate was 6.04%, representing a decrease of 0.07 percentage points as compared to that in the previous corresponding period. The decrease in average interest rate was mainly due to the increase in short-term interest-bearing bank and repayment of the corporate bonds. The Group will further seek practical ways to optimize loan structure, expand financing channels and methods and lower the average interest rate in the coming year.

## **Share of Profits and Losses of Associates**

The Group's share of losses of associates for the year ended 31 December 2021 was RMB0.3 million, representing a major decrease as compared to share of losses of associates of RMB2.7 million in the previous corresponding period. The Group will further execute practical ways to reduce the losses brought by the associates.

## **Share of Profits and Losses of Joint ventures**

Share of losses of joint ventures for the year ended 31 December 2021 was RMB2.2 million, representing a major decrease as compared to share of losses of joint ventures of RMB4.8 million in the previous corresponding period. The Group will further execute practical ways to reduce the losses brought by the joint ventures.

## **Income Tax Expense**

Income tax expense for the year ended 31 December 2021 included the current PRC income tax of RMB44.3 million and deferred tax expenses of RMB87.8 million, which were RMB34.2 million and RMB103.1 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2021 was approximately 24%, representing an increase of 1 percentage points as compared with approximately 23% for the previous corresponding period, which was mainly due to the decrease in effect of lower tax rates for specific provinces or enacted by local authority.

## Financial Receivables

	As at	
	31 December 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Receivables for service concession arrangements	10,978,212	10,006,697
Portion classified as current	<u>(1,878,059)</u>	<u>(1,692,798)</u>
Non-current portion	<u>9,100,153</u>	<u>8,313,899</u>

As at 31 December 2021, the Group's financial receivables of RMB10,978.2 million (31 December 2020: RMB10,006.7 million) increased by RMB971.5 million, which was mainly due to the increase in financial receivables which were reclassified from contract assets once the construction and upgrade period is ended for the water treatment projects.

## Contract Assets

	As at	
	31 December 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Contract assets	1,973,035	2,297,247
Portion classified as current	<u>(323,761)</u>	<u>(222,337)</u>
Non-current portion	<u>1,649,274</u>	<u>2,074,910</u>

As at 31 December 2021, the Group's contract assets of RMB1,973.0 million (31 December 2020: RMB2,297.2 million), decreased by RMB324.2 million, mainly due to the net impact of reclassification from contract assets to financial receivables and the increase of construction of the Group's projects under BOT, PPP, and EPC contracts.

## **Trade and Bills Receivables**

As at 31 December 2021, the Group's trade and bills receivables of RMB1,776.6 million (31 December 2020: RMB1,527.0 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB249.6 million, mainly due to (i) the increase in Urban Water Treatment projects receivables of approximately RMB401.1 million, (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB145.9 million, which included EPC project receivables of approximately RMB46.9 million arising from the progress billing and cash collected from EPC and Build-Transfer projects of approximately RMB192.8 million, and (iii) the increase in Rural Water Improvement projects receivables of approximately RMB10.0 million.

## **Prepayments, Other Receivables and Other Assets**

As at 31 December 2021, the Group's prepayments, other receivables and other assets of RMB855.1 million (31 December 2020: RMB791.2 million) increased by RMB63.9 million, mainly arising from the increase in other operational receivables and accrued interests of approximately RMB140.9 million, the decrease in prepayments and deposits of approximately RMB31.6 million related to the construction of wastewater treatment plants, the decrease in deductible input VAT of approximately RMB24.4 million, and decrease in loans to a third party of approximately RMB10.0 million.

## Cash and Cash Equivalents

As at 31 December 2021, the Group's cash and cash equivalents of RMB289.9 million (31 December 2020: RMB430.3 million) decreased by RMB140.4 million as compared with that as at the end of previous corresponding period. The decrease was due to the increase in cash outflows in investing activities of the Group.

	For the year ended	
	31 December	
	2021	2020
	RMB'000	RMB'000
Net cash flows used from operating activities <sup>(1)</sup>	320,165	243,726
Net cash flows used (in)/from investing activities	(122,083)	337,174
Net cash flows used in financing activities	(337,877)	(380,765)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(139,795)	200,135
Effect of foreign exchange rate changes	(569)	4,455
Cash and cash equivalents at beginning of the period	430,262	225,672
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>289,898</u>	<u>430,262</u>

Note:

- (1) For the year ended 31 December 2021 and 2020, the Group invested RMB507.1 million and RMB791.8 million, respectively, in the Group's BOT/TOT and PPP projects. Such investments were accounted for as cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's consolidated statement of financial position. For the year ended 31 December 2021 and 2020, the Group would have incurred cash inflows of RMB827.3 million and RMB1,035.5 million, respectively, if the Group's investments in BOT/TOT and PPP activities were not accounted for as cash flows used in operating activities.

## Trade and Bills Payables

As at 31 December 2021, the Group's trade and bills payables of RMB2,056.8 million (31 December 2020: RMB2,059.9 million) decreased by RMB3.1 million, which was in line with the decrease of the Group's construction work in progress and the settlements.

## **Other Payables and Accruals**

As at 31 December 2021, the Group's other payables and accruals of RMB278.2 million (31 December 2020: RMB240.2 million) increased by RMB38.0 million, which was mainly due to the increase in salary and welfare payables, acquisition of non-controlling interests payables, and amounts due to related parties.

## **Liquidity and Financial Resources**

The Group's principal liquidity and capital requirements primarily relate to investments in Urban Water Treatment projects, Water Environment Comprehensive Remediation projects, and Rural Water Improvement projects, merger and acquisition of subsidiaries, costs and expenses related to the operation and maintenance of the Group's facilities, working capital and general corporate purpose.

As at 31 December 2021, the carrying amount of the Group's cash and cash equivalents was RMB289.9 million, representing a decrease of approximately RMB140.4 million as compared to RMB430.3 million as at 31 December 2020, which was mainly due to the net cash inflows of RMB320.2 million from operating activities, the net cash outflows used in financing activities of RMB337.9 million, settlements of acquisition and investing payables of RMB1.8 million and cash outflows of RMB149.4 million for purchases of property, plant and equipment and intangible assets in investing activities, cash outflows of RMB118.3 million for increase in pledged deposits, repurchase of other current financial assets of RMB133.5 million, cash inflows of RMB13.5 million for disposal of subsidiaries from investing activities, and cash inflows of RMB0.4 million for disposal of property, plant and equipment and intangible assets from investing activities.

As at 31 December 2021, the Group's total interest-bearing debts increased to RMB9,469.7 million (31 December 2020: RMB9,272.8 million), which comprised of bank and other borrowings only (31 December 2020: bank and other borrowings of RMB8,688.5 million and corporate bonds of RMB584.3 million). As at 31 December 2021, 66.2% (31 December 2020: 75.6%) of the Group's interest-bearing debts are long term; over 59% of interest-bearing bank and other borrowings bear interest at floating rates.

As at 31 December 2021, the Group had banking facilities amounting to RMB58,417.5 million, of which RMB49,552.6 million have not been utilized. The unutilized amount of RMB49,332.6 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 31 December 2021, the gearing ratio of the Group (calculated by total liabilities divided by total assets) slightly decreased to 70.4%, while the gearing ratio was 71.0% as at 31 December 2020.

### **Charges on the Group's Assets**

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2021 was approximately RMB9,469.7 million, which were repayable within one month to twenty-four years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, trade receivables, contract assets and pledged deposits of which the total amounts of the pledge of assets amounted to RMB9,286.6 million.

### **Capital Expenditure**

During the year ended 31 December 2021, the Group's total capital expenditure were RMB649.4 million, compared to RMB1,171.0 million in 2020, primarily including the consideration of approximately RMB636.5 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB11.8 million for acquisition of equity interests in subsidiaries, and an associate.

### **EMPLOYEES AND REMUNERATION POLICIES**

The Group had 2,426 employees as at 31 December 2021. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

In respect of pension scheme contributions, the Group adopts a defined contribution plan. The Group's contributions to the defined contribution plan are recognised as expenses when incurred. Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may not be used by the Group and its subsidiaries to reduce the existing level of contributions.

## **CONTINGENT LIABILITIES**

As at 31 December 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

## **FOREIGN EXCHANGE RISK**

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2021, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

## **EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed above, no significant events took place subsequent to 31 December 2021.

## **PROPOSED FINAL DIVIDEND**

The Board did not recommend payment of the final dividend for the year ended 31 December 2021 (year ended 31 December 2020: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The transfer books and register of members of the Company will be closed from Thursday, 2 June 2022 to Wednesday, 8 June 2022, both days inclusive, during which period no transfer of the share(s) of the Company (the “Shares”) can be registered. The record date for entitlement to attend and vote at the forthcoming annual general meeting of the Company (the “Annual General Meeting”) is Wednesday, 8 June 2022. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 1 June 2022.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2021 and up to the date of this announcement.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. During the year ended 31 December 2021, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

## **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") currently comprises three independent non-executive Directors, namely Mr. Chau Kam Wing (Chairman of Audit Committee), Mr. Peng Yongzhen and Mr. Chang Qing.

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2021 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

## **SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT**

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 this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2021.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2021.

## **PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY**

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2021 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

By order of the Board  
**KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED**  
**LI Zhong**  
*Co-Chairman*

Hong Kong, 28 March 2022

*As at the date of this announcement, the Board comprises seven Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yujie, and Mr. DUAN, Jerry Linnan as executive Directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive Directors.*