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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)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

**HIGHLIGHTS**

- Revenue was approximately RMB1,661.4 million, representing an increase of 12.6% over the corresponding period last year mainly owing to the increases in revenue from construction services and operating services.
- Gross profit was RMB718.5 million, representing an increase of 6.4% over the corresponding period last year. Due to the general increases in operating costs, gross profit margin decreased to 43.2% comparing with 45.8% for the corresponding period last year.
- Profit attributable to owners of the parent was RMB202.0 million, representing a decrease of 14.7% over the corresponding period last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent was RMB9.44 cents, representing a decrease of 14.7% as compared with RMB11.07 cents over the corresponding period last year.
- Net cash inflow from operating activities recorded RMB140.1 million, representing a sharp increase of 347.6% over the corresponding period last year.
- The Board did not recommend the payment of interim dividend for the six months ended 30 June 2022.

The board (the “Board”) of directors (the “Directors”) of Kangda International Environmental Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2022 (the “Reporting Period”) together with the comparative figures for the corresponding period in 2021 and the relevant explanatory notes as set out below.

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

*For the six months ended 30 June 2022*

|   |              | <b>For the six months<br/>ended 30 June</b> |                            |
|---|--------------|---|----------------------------|
|   | <i>Notes</i> | <b>2022</b>                                 | 2021                       |
|   |              | <b>RMB'000</b>                              | RMB'000                    |
|   |              | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>         |
| <b>REVENUE</b>  | 4            | <b>1,661,383</b>                            | 1,475,467                  |
| Cost of sales   |              | <u>(942,926)</u>                            | <u>(800,093)</u>           |
| Gross profit  |              | <b>718,457</b>                              | 675,374                    |
| Other income and gains  | 5            | <b>26,403</b>                               | 78,127                     |
| Selling and distribution expenses   |              | <b>(447)</b>                                | (592)                      |
| Administrative expenses   |              | <b>(137,354)</b>                            | (111,779)                  |
| Other expenses  |              | <b>(48,241)</b>                             | (42,008)                   |
| Finance costs   | 6            | <b>(280,250)</b>                            | (283,929)                  |
| Share of profits and losses of:   |              |   |                            |
| Associates  |              | <b>(582)</b>                                | (2,104)                    |
| Joint ventures  |              | <u>(2,317)</u>                              | <u>(903)</u>               |
| <b>PROFIT BEFORE TAX</b>  | 7            | <b>275,669</b>                              | 312,186                    |
| Income tax expense  | 8            | <u>(73,263)</u>                             | <u>(72,182)</u>            |
| <b>PROFIT FOR THE PERIOD</b>  |              | <u><b>202,406</b></u>                       | <u>240,004</u>             |
| Profit attributable to:   |              |   |                            |
| Owners of the parent  |              | <b>202,029</b>                              | 236,770                    |
| Non-controlling interests   |              | <u>377</u>                                  | <u>3,234</u>               |
|   |              | <u><b>202,406</b></u>                       | <u>240,004</u>             |
| <b>EARNINGS PER SHARE ATTRIBUTABLE<br/>TO ORDINARY EQUITY HOLDERS<br/>OF THE PARENT</b> |              |   |                            |
| — Basic and diluted   | 9            | <u><b>RMB<br/>9.44 cents</b></u>            | <u>RMB<br/>11.07 cents</u> |

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

*For the six months ended 30 June 2022*

|  | <b>For the six months<br/>ended 30 June</b> |                    |
|--|---|--------------------|
|  | <b>2022</b>                                 | 2021               |
|  | <b>RMB'000</b>                              | <b>RMB'000</b>     |
|  | <b>(Unaudited)</b>                          | <b>(Unaudited)</b> |
| <b>OTHER COMPREHENSIVE<br/>INCOME/ (LOSS)</b>  |   |                    |
| Other comprehensive income/(loss) that will<br>not be reclassified to profit or loss in<br>subsequent periods: |   |                    |
| Equity investments designated at fair value<br>through other comprehensive income:                             |   |                    |
| Changes in fair value  | <b>44,000</b>                               | (79,000)           |
| Income tax effect  | <b>(6,600)</b>                              | 11,850             |
|  | <b>37,400</b>                               | (67,150)           |
| <b>OTHER COMPREHENSIVE<br/>INCOME/(LOSS) FOR THE PERIOD,<br/>NET OF TAX</b>                                    | <b>37,400</b>                               | (67,150)           |
| <b>TOTAL COMPREHENSIVE INCOME<br/>FOR THE PERIOD</b>   | <b>239,806</b>                              | 172,854            |
| Total comprehensive income attributable to:  |   |                    |
| Owners of the parent   | <b>239,429</b>                              | 169,620            |
| Non-controlling interests  | <b>377</b>                                  | 3,234              |
|  | <b>239,806</b>                              | 172,854            |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

30 June 2022

|   |              | <b>30 June<br/>2022</b> | 31 December<br>2021 |
|---|--------------|-------------------------|---------------------|
|   | <i>Notes</i> | <b>RMB'000</b>          | <b>RMB'000</b>      |
|   |              | <b>(Unaudited)</b>      | <b>(Audited)</b>    |
| <b>NON-CURRENT ASSETS</b>   |              |                         |                     |
| Property, plant and equipment   |              | <b>63,550</b>           | 66,784              |
| Investment properties   |              | <b>11,656</b>           | 12,094              |
| Investments in associates   |              | <b>376,191</b>          | 376,773             |
| Investments in joint ventures   |              | <b>79,692</b>           | 82,009              |
| Equity investments designated at fair value<br>through other comprehensive income |              | –                       | 248,000             |
| Service concession intangible assets  |              | <b>1,091,705</b>        | 1,084,506           |
| Other intangible assets   |              | <b>2,374</b>            | 2,577               |
| Contract assets   |              | <b>1,898,134</b>        | 1,649,274           |
| Goodwill  |              | <b>58,325</b>           | 58,325              |
| Financial receivables   | <i>10</i>    | <b>9,282,981</b>        | 9,100,153           |
| Deferred tax assets   |              | <b>90,582</b>           | 96,409              |
| Right-of-use assets   |              | <b>1,576</b>            | 1,718               |
| Prepayments, other receivables and other assets                                   |              | <b>121,490</b>          | 120,765             |
|   |              | <b>13,078,256</b>       | 12,899,387          |
| <b>CURRENT ASSETS</b>   |              |                         |                     |
| Inventories   |              | <b>17,872</b>           | 17,077              |
| Contract assets   |              | <b>321,372</b>          | 323,761             |
| Equity investments designated at fair value<br>through other comprehensive income |              | <b>292,000</b>          | –                   |
| Financial receivables   | <i>10</i>    | <b>1,905,114</b>        | 1,878,059           |
| Trade and bills receivables   | <i>11</i>    | <b>2,072,129</b>        | 1,776,560           |
| Prepayments, other receivables and other assets                                   |              | <b>633,286</b>          | 734,365             |
| Pledged deposits  |              | <b>243,595</b>          | 333,870             |
| Cash and cash equivalents   |              | <b>561,358</b>          | 289,898             |
| Other current financial assets  |              | <b>45</b>               | 28,431              |
|   |              | <b>6,046,771</b>        | 5,382,021           |

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

30 June 2022

|  |              | <b>30 June<br/>2022</b>  | 31 December<br>2021 |
|--|--------------|--------------------------|---------------------|
|  | <i>Notes</i> | <b>RMB'000</b>           | <b>RMB'000</b>      |
|  |              | <b>(Unaudited)</b>       | <b>(Audited)</b>    |
| <b>CURRENT LIABILITIES</b>                       |              |                          |                     |
| Trade and bills payables                         | 12           | <b>2,271,728</b>         | 2,056,753           |
| Other payables and accruals                      |              | <b>234,125</b>           | 247,192             |
| Deferred income                                  |              | <b>4,478</b>             | 7,027               |
| Interest-bearing bank and other borrowings       |              | <b>3,491,083</b>         | 3,197,997           |
| Tax payable                                      |              | <b>44,917</b>            | 58,491              |
|  |              | <u><b>6,046,331</b></u>  | <u>5,567,460</u>    |
| Total current liabilities                        |              | <u><b>6,046,331</b></u>  | <u>5,567,460</u>    |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>          |              | <u><b>440</b></u>        | <u>(185,439)</u>    |
| <b>TOTAL ASSETS LESS CURRENT<br/>LIABILITIES</b> |              | <u><b>13,078,696</b></u> | <u>12,713,948</u>   |
| <b>NON-CURRENT LIABILITIES</b>                   |              |                          |                     |
| Trade payables                                   | 12           | <b>62</b>                | 62                  |
| Interest-bearing bank and other borrowings       |              | <b>6,341,311</b>         | 6,271,742           |
| Deferred income                                  |              | <b>965</b>               | 1,930               |
| Other payables and accruals                      |              | <b>29,542</b>            | 30,991              |
| Deferred tax liabilities                         |              | <b>1,059,389</b>         | 1,001,602           |
|  |              | <u><b>7,431,269</b></u>  | <u>7,306,327</u>    |
| Total non-current liabilities                    |              | <u><b>7,431,269</b></u>  | <u>7,306,327</u>    |
| Net assets                                       |              | <u><b>5,647,427</b></u>  | <u>5,407,621</u>    |
| <b>EQUITY</b>                                    |              |                          |                     |
| Equity attributable to owners of the parent      |              |                          |                     |
| Share capital                                    |              | <b>17,125</b>            | 17,125              |
| Reserves   |              | <b>5,492,310</b>         | 5,252,881           |
|  |              | <u><b>5,509,435</b></u>  | <u>5,270,006</u>    |
| Non-controlling interests                        |              | <u><b>137,992</b></u>    | <u>137,615</u>      |
| Total equity                                     |              | <u><b>5,647,427</b></u>  | <u>5,407,621</u>    |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

## 1. CORPORATE AND GROUP INFORMATION

Kangda International Environmental Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 4 July 2014.

The Company is an investment holding company and its subsidiaries are engaged in the design, construction, operation and maintenance of wastewater treatment plants (the “WTPs”), reclaimed water treatment plants (the “RWTPs”), water distribution plants (the “WDPs”), sludge treatment plants (the “STPs”) and other municipal infrastructures in the mainland (“Mainland China”) of the People’s Republic of China (the “PRC”).

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and in compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

The unaudited interim condensed consolidated financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, which has been measured at fair value and are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2 Changes to the Group's accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

|  |   |
|--|---|
| Amendments to IFRS 3                                       | <i>Reference to the Conceptual Framework</i>  |
| Amendments to IAS 16                                       | <i>Property, Plant and Equipment:<br/>Proceeds before Intended Use</i>                  |
| Amendments to IAS 37                                       | <i>Onerous Contracts — Cost of Fulfilling a Contract</i>                                |
| <i>Annual Improvements to IFRS<br/>Standards 2018–2020</i> | Amendments to IFRS 1, IFRS 9, Illustrative Examples<br>accompanying IFRS 16, and IAS 41 |

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2 Changes to the Group's accounting policies (continued)

- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRS Standards 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- *IFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
  - *IFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

### 3. 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 WTPs, RWTPs, STPs, WDPs, and in the O&M (operation and maintenance of waste water treatment facilities entrusted by governments);
- (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, right-of-use assets, unallocated cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude unallocated other payables and accruals, lease liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

### 3. OPERATING SEGMENT INFORMATION (continued)

| For the six months ended<br>30 June 2022 (Unaudited)                 | Urban<br>Water<br>Treatment<br>RMB'000 | Water<br>Environment<br>Comprehensive<br>Remediation<br>RMB'000 | Rural<br>Water<br>Improvement<br>RMB'000 | Total<br>RMB'000 |
|--|--|---|--|------------------|
| <b>Segment revenue</b>   |  |   |  |                  |
| Sales to external customers  | 1,619,071                              | 6,554   | 35,758                                   | 1,661,383        |
|  | 1,619,071                              | 6,554   | 35,758                                   | 1,661,383        |
| <b>Segment results</b>   | 364,214                                | 19,813  | 1,989                                    | 386,016          |
| <i>Reconciliation:</i>   |  |   |  |                  |
| Unallocated income and gains   |  |   |  | 4,407            |
| Share of losses of unallocated associates                            |  |   |  | (610)            |
| Share of loss of an unallocated joint venture                        |  |   |  | (466)            |
| Corporate and other unallocated expenses                             |  |   |  | (21,709)         |
| Unallocated lease-related finance costs                              |  |   |  | (54)             |
| Unallocated finance costs (other than interest on lease liabilities) |  |   |  | (91,915)         |
| Profit before tax for the period                                     |  |   |  | <u>275,669</u>   |
| <b>Other segment information</b>                                     |  |   |  |                  |
| Share of gain of an associate  | –                                      | 28  | –  | 28               |
| Share of losses of unallocated associates                            |  |   |  | (610)            |
| Share of loss of a joint venture                                     | (1,851)                                | –   | –  | (1,851)          |
| Share of loss of an unallocated joint venture                        |  |   |  | (466)            |
| Depreciation and amortisation  | 32,839                                 | 52  | 6,485                                    | 39,376           |
| Unallocated depreciation and amortisation                            |  |   |  | 2,077            |
| Total depreciation and amortisation                                  |  |   |  | <u>41,453</u>    |

### 3. OPERATING SEGMENT INFORMATION (continued)

| At 30 June 2022 (Unaudited)                 | Urban<br>Water<br>Treatment<br><i>RMB'000</i> | Water<br>Environment<br>Comprehensive<br>Remediation<br><i>RMB'000</i> | Rural<br>Water<br>Improvement<br><i>RMB'000</i> | Total<br><i>RMB'000</i>  |
|---|---|--|---|--------------------------|
| <b>Segment assets</b>                       | 16,150,165                                    | 1,420,415  | 736,228   | 18,306,808               |
| <i>Reconciliation:</i>                      |   |  |   |                          |
| Corporate and other unallocated assets      |   |  |   | <u>818,219</u>           |
| Total assets                                |   |  |   | <u><u>19,125,027</u></u> |
| <b>Segment liabilities</b>                  | 12,422,593                                    | 438,187  | 513,575   | 13,374,355               |
| <i>Reconciliation:</i>                      |   |  |   |                          |
| Corporate and other unallocated liabilities |   |  |   | <u>103,245</u>           |
| Total liabilities                           |   |  |   | <u><u>13,477,600</u></u> |
| <b>Other segment information</b>            |   |  |   |                          |
| Investments in associates                   | –   | 230,957  | –   | 230,957                  |
| Unallocated investments in associates       |   |  |   | 145,234                  |
| Investment in a joint venture               | 70,621  | –  | –   | 70,621                   |
| Unallocated investment in a joint venture   |   |  |   | 9,071                    |
| Capital expenditure                         | 78,430  | –  | 22,046  | 100,476                  |
| Unallocated amounts                         |   |  |   | <u>4</u>                 |
| Total capital expenditure*                  |   |  |   | <u><u>100,480</u></u>    |

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six months ended 30 June 2022.

### 3. OPERATING SEGMENT INFORMATION (continued)

| For the six months ended<br>30 June 2021 (Unaudited)                 | Urban<br>Water<br>Treatment<br><i>RMB'000</i> | Water<br>Environment<br>Comprehensive<br>Remediation<br><i>RMB'000</i> | Rural<br>Water<br>Improvement<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|--|---|--|---|-------------------------|
| <b>Segment revenue</b>   |   |  |   |                         |
| Sales to external customers  | 1,350,313                                     | 68,021   | 57,133  | 1,475,467               |
|  | 1,350,313                                     | 68,021   | 57,133  | 1,475,467               |
| <b>Segment results</b>   | 369,130                                       | 27,682   | 11,448  | 408,260                 |
| <i>Reconciliation:</i>   |   |  |   |                         |
| Unallocated income and gains   |   |  |   | 25,403                  |
| Share of losses of unallocated associates                            |   |  |   | (328)                   |
| Share of losses of an unallocated joint venture                      |   |  |   | (830)                   |
| Corporate and other unallocated expenses                             |   |  |   | (17,966)                |
| Unallocated lease-related finance costs                              |   |  |   | (42)                    |
| Unallocated finance costs (other than interest on lease liabilities) |   |  |   | (102,311)               |
| Profit before tax for the period                                     |   |  |   | 312,186                 |
| <b>Other segment information</b>                                     |   |  |   |                         |
| Share of losses of associates  | –   | (1,776)  | –   | (1,776)                 |
| Share of losses of unallocated associates                            |   |  |   | (328)                   |
| Share of losses of joint ventures                                    | (73)  | –  | –   | (73)                    |
| Share of losses of an unallocated joint venture                      |   |  |   | (830)                   |
| Depreciation and amortisation  | 30,321  | 63   | 3,993   | 34,377                  |
| Unallocated depreciation and amortisation                            |   |  |   | 2,355                   |
| Total depreciation and amortisation                                  |   |  |   | 36,732                  |

### 3. OPERATING SEGMENT INFORMATION (continued)

| At 31 December 2021 (Audited)               | Urban<br>Water<br>Treatment<br><i>RMB'000</i> | Water<br>Environment<br>Comprehensive<br>Remediation<br><i>RMB'000</i> | Rural<br>Water<br>Improvement<br><i>RMB'000</i> | Total<br><i>RMB'000</i>  |
|---|---|--|---|--------------------------|
| <b>Segment assets</b>                       | 15,424,670                                    | 1,215,755  | 696,706   | 17,337,131               |
| <i>Reconciliation:</i>                      |   |  |   |                          |
| Corporate and other unallocated assets      |   |  |   | <u>944,277</u>           |
| Total assets                                |   |  |   | <u><u>18,281,408</u></u> |
| <b>Segment liabilities</b>                  | 11,763,185                                    | 496,509  | 492,470   | 12,752,164               |
| <i>Reconciliation:</i>                      |   |  |   |                          |
| Corporate and other unallocated liabilities |   |  |   | <u>121,623</u>           |
| Total liabilities                           |   |  |   | <u><u>12,873,787</u></u> |
| <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                    |
| Capital expenditure                         | 68,272  | –  | 49,511  | 117,783                  |
| Unallocated amounts                         |   |  |   | <u>26</u>                |
| Total capital expenditure*                  |   |  |   | <u><u>117,809</u></u>    |

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six months ended 30 June 2021.

#### 4. REVENUE

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under Build-Operate-Transfer (the “BOT”) arrangements, Engineering Procurement Construction (the “EPC”) arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructures under BOT arrangements, Transfer-Operate-Transfer (the “TOT”) arrangements, and the provision of Operation and Maintenance services; and (3) financial income under service concession arrangements. The amount of each significant category of revenue during the six months ended 30 June 2022 is as follows:

|  | For the six months<br>ended 30 June |                  |
|--|-------------------------------------|------------------|
|  | 2022                                | 2021             |
|  | RMB'000                             | RMB'000          |
|  | (Unaudited)                         | (Unaudited)      |
| <b>Revenue from contracts with customers</b> |                                     |                  |
| Revenue from construction services           | 613,583                             | 558,010          |
| Revenue from operating services              | 683,799                             | 566,551          |
| Financial income                             | 364,001                             | 350,906          |
|  | <u>1,661,383</u>                    | <u>1,475,467</u> |

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.

The aggregated revenue from construction services, operating services and financial income derived in Mainland China amounted to RMB1,661,383,000 and RMB1,475,467,000 for the six months ended 30 June 2022 and 2021, respectively.

#### 5. OTHER INCOME AND GAINS

|  | For the six months<br>ended 30 June |               |
|--|-------------------------------------|---------------|
|  | 2022                                | 2021          |
|  | RMB'000                             | RMB'000       |
|  | (Unaudited)                         | (Unaudited)   |
| Government grants ( <i>note a</i> )                      | 12,913                              | 41,076        |
| Interest income from loans to third parties              | 9,083                               | 11,648        |
| Gains on disposal of subsidiaries                        | –                                   | 9,606         |
| Investment income  | 7                                   | 8,624         |
| Foreign exchange differences, net                        | –                                   | 3,154         |
| Bank interest income                                     | 1,578                               | 1,872         |
| Interest income from loans to a joint venture            | 408                                 | 408           |
| Rental income less depreciation of investment properties | 253                                 | 225           |
| Others   | 2,161                               | 1,514         |
|  | <u>26,403</u>                       | <u>78,127</u> |

## 5. OTHER INCOME AND GAINS (continued)

*Note:*

- (a) 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 other government grants.

## 6. FINANCE COSTS

|  | For the six months<br>ended 30 June |                |
|--|-------------------------------------|----------------|
|  | 2022                                | 2021           |
|  | <i>RMB'000</i>                      | <i>RMB'000</i> |
|  | (Unaudited)                         | (Unaudited)    |
| Interest on interest-bearing bank and other borrowings | <b>280,196</b>                      | 259,239        |
| Interest on corporate bonds                            | –                                   | 24,648         |
| Interest on lease liabilities                          | <b>54</b>                           | 42             |
|  | <hr/>                               | <hr/>          |
|  | <b>280,250</b>                      | 283,929        |
|  | <hr/> <hr/>                         | <hr/> <hr/>    |

## 7. PROFIT BEFORE TAX

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

|   | For the six months<br>ended 30 June |                |
|---|-------------------------------------|----------------|
|   | 2022                                | 2021           |
|   | RMB'000                             | RMB'000        |
|   | (Unaudited)                         | (Unaudited)    |
| Cost for construction services                                | 476,913                             | 440,639        |
| Cost for operation services                                   | 466,013                             | 359,454        |
| Total of cost of sales  | <u>942,926</u>                      | <u>800,093</u> |
| Depreciation of property, plant and equipment                 | 3,690                               | 3,325          |
| Depreciation of investment properties                         | 438                                 | 438            |
| Depreciation of right-of-use assets                           | 142                                 | 142            |
| Amortisation of service concession intangible assets          | 36,980                              | 32,594         |
| Amortisation of other intangible assets                       | 203                                 | 233            |
| Impairment of financial receivables                           | (69)                                | 367            |
| Impairment of contract assets                                 | 100                                 | 3              |
| Impairment of prepayments, other receivables and other assets | 417                                 | 4,670          |
| Impairment of trade receivables                               | 7,143                               | 15,789         |
| Impairment of goodwill  | –                                   | 1,894          |
| Loss/(gains) on disposal of subsidiaries                      | 1,359                               | (9,606)        |
| Exchange differences, net                                     | <u>21,924</u>                       | <u>(3,154)</u> |

## 8. 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 for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

The major components of income tax expense in the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income are:

|                                  | For the six months<br>ended 30 June |               |
|----------------------------------|-------------------------------------|---------------|
|                                  | 2022                                | 2021          |
|                                  | RMB'000                             | RMB'000       |
|                                  | (Unaudited)                         | (Unaudited)   |
| Current                          |                                     |               |
| — Mainland China                 | 14,880                              | 19,279        |
| Deferred                         | <u>58,383</u>                       | <u>52,903</u> |
| Income tax charge for the period | <u>73,263</u>                       | <u>72,182</u> |

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,139,735,000 (2021: 2,139,735,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2022 and 2021.

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

|  | <b>For the six months<br/>ended 30 June</b> |                      |
|--|---|----------------------|
|  | <b>2022</b>                                 | <b>2021</b>          |
|  | <b>RMB'000</b>                              | <b>RMB'000</b>       |
|  | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>   |
| <b>Earnings:</b>   |   |                      |
| Profit attributable to ordinary equity holders of the parent,<br>used in the basic and diluted earnings per share calculation            | <u><b>202,029</b></u>                       | <u>236,770</u>       |
|  |   |                      |
|  | <b>Number of Shares</b>                     |                      |
|  | <b>30 June</b>                              | <b>30 June</b>       |
|  | <b>2022</b>                                 | <b>2021</b>          |
|  | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>   |
| <b>Shares:</b>   |   |                      |
| Weighted average number of ordinary shares in issue<br>during the period used in the basic and diluted<br>earnings per share calculation | <u><b>2,139,735,000</b></u>                 | <u>2,139,735,000</u> |

## 10. FINANCIAL RECEIVABLES

|   | <b>30 June</b>            | <b>31 December</b> |
|---|---------------------------|--------------------|
|   | <b>2022</b>               | <b>2021</b>        |
|   | <b>RMB'000</b>            | <b>RMB'000</b>     |
|   | <b>(Unaudited)</b>        | <b>(Audited)</b>   |
| Receivables for service concession arrangements | <b>11,190,279</b>         | 10,980,465         |
| Impairment                                      | <u><b>(2,184)</b></u>     | <u>(2,253)</u>     |
|   |                           |                    |
| Portion classified as current assets            | <u><b>11,188,095</b></u>  | 10,978,212         |
|   | <u><b>(1,905,114)</b></u> | <u>(1,878,059)</u> |
|   |                           |                    |
| Non-current portion                             | <u><b>9,282,981</b></u>   | <u>9,100,153</u>   |

## 10. FINANCIAL RECEIVABLES (continued)

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs, WDPs 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 governmental authorities or their designees (the “Grantors”).

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 represented contract assets as the rights to considerations have yet to be unconditional.

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.

At 30 June 2022, the Group’s financial receivables with a carrying value of RMB6,673,028,000 (31 December 2021: RMB7,120,278,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group.

## 11. TRADE AND BILLS RECEIVABLES

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 of individual construction service customer is considered on a case-by-case basis. Trade receivables are non-interest-bearing.

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

|                 | <b>30 June<br/>2022<br/>RMB’000<br/>(Unaudited)</b> | 31 December<br>2021<br>RMB’000<br>(Audited) |
|-----------------|---|---|
| Within 3 months | 443,025   | 411,569                                     |
| 4 to 6 months   | 340,909   | 241,979                                     |
| 7 to 12 months  | 469,752   | 401,819                                     |
| Over 12 months  | 818,443   | 721,193                                     |
|                 | <u>2,072,129</u>                                    | <u>1,776,560</u>                            |

## 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 set out in the supplier contracts. An ageing analysis of the Group's trade and bills payables as at the end of each reporting period is as follows:

|                 | <b>30 June<br/>2022</b> | 31 December<br>2021 |
|-----------------|-------------------------|---------------------|
|                 | <b><i>RMB'000</i></b>   | <i>RMB'000</i>      |
|                 | <b>(Unaudited)</b>      | (Audited)           |
| Within 3 months | <b>770,754</b>          | 448,342             |
| 4 to 6 months   | <b>234,077</b>          | 392,028             |
| 7 to 12 months  | <b>393,670</b>          | 434,152             |
| Over 12 months  | <b>873,289</b>          | 782,293             |
|                 | <b><u>2,271,790</u></b> | <u>2,056,815</u>    |

## 13. DIVIDEND

The board of directors did not recommend payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

In the first half of 2022, prices and supply chains have been affected by international conflicts, ongoing capital market and pandemic volatility, which have posed significant challenges to operations in all sectors, and the municipal wastewater treatment industry is no exception. While operating costs increased, prices of wastewater treatment generally failed to adjust in a timely manner so that profit generally declined for the wastewater treatment industry. Under the current situation, the Group tightly controlled costs, completed construction works and enhanced wastewater treatment capacity in an orderly manner, and maintained its leading position in the industry despite a slight decrease in gross profit margin and net profit margin during the period as compared to the previous corresponding period. At the same time, the Group is committed to improving its cash holdings and is well prepared for the challenges of the future operating environment, with operating cash flow remaining positive and improving significantly during the period. In respect of financing activities, the Group obtained green loans of US\$16 million in total certified by the Hong Kong Quality Assurance Agency in early 2022, which is the first green financing completed by the Group in Hong Kong and embodies the Group's green business concept of water-oriented environmental pollution management in its corporate financing activities. When opportunities arise, the Group may explore to diversify its financing channels including equity and debt financing and real estate investment trusts ("REITs") in Mainland China.

During the period, the central government was highly concerned about the healthful development of the wastewater treatment industry and continued to optimize the policies related to the water ecological environment during the 14th Five-Year Plan period. The National Development and Reform Commission unveiled a notice that detailed efforts to Promote New Urbanization during the 14th Five-Year Plan Period (《“十四五”新型城镇化實施方案》), proposing to strengthen the water environment protection in accordance with local conditions, and promote the supporting network of domestic water improvement plants and the resourceful use of wastewater and sludge. Local government departments have also launched the 14th Five-Year Plan for Ecological and Environmental Protection (《“十四五”生態環境保護規劃》) to address local conditions and set targets for ecological and environmental management. The Group believes that, in the foreseeable future, the government would continue to highly value wastewater treatment industry through persistently introducing favorable policies to guide the industry development towards a more standardized, professional and healthy direction in general.

## DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

Recently, the central government encouraged the development of real estate investment trusts in the infrastructure field (“Infrastructure REITs”), with the Notice on Accelerating the Work of Promoting Real Estate Investment Trusts (REITs) in the Infrastructure Field (《關於加快推進基礎設施領域不動產投資信托基金(REITs)有關工作的通知》), the Opinions on Further Revitalizing Stock Assets to Expand Effective Investment (《關於進一步盤活存量資產擴大有效投資的意見》), and the Notice on Further Effectively Completing of Social Capital Investment and Financing Cooperation (《關於進一步做好社會資本投融資合作對接有關工作的通知》) and other relevant policy documents issued one after another. The Group is pleased to see this development and will actively consider opportunities taking into account the market conditions and the Group’s financial position and will look forward to participating in suitable opportunities in the future. In the future, the Group will continue to focus on our main business, namely wastewater treatment, and further increase the profitability of our existing projects and improve the operational cash flows of the Group by raising treatment standards and expansion. The Group will also grasp the opportunities coming along with the state environmental protection policies in relation to water environment, carbon peak and carbon neutrality to expand into both upstream and downstream businesses along the industrial chain of water treatment industry and rationally screen quality projects for operation, including disposal of sludge, operation, maintenance and construction of drainage facilities, reusing of reclaimed water and disposal of industrial wastewater, and deepening energy saving and consumption reduction measures, so as to contribute to a better national ecosystem while exploring investment opportunities. Also, the Group will continue to lower its financing cost and improve debt structure by developing more financing channels, enriching the financing path, increase operational efficiency, strictly control operational cost and speed up the process of activating low efficiency assets to maximize return for our shareholders.

## **BUSINESS REVIEW**

During the six months ended 30 June 2022 (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”), 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 30 June 2022.

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 30 June 2022, the Group had entered into a total of 112 service concession arrangements projects, including 106 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 30 June 2022 is as follows:

|   | Daily<br>wastewater<br>treatment<br>capacity | Daily water<br>distribution<br>capacity | Daily<br>reclaimed<br>water<br>treatment<br>capacity | Daily sludge<br>treatment<br>capacity | Total            |
|---|--|---|--|---------------------------------------|------------------|
| <i>(Tonnes)</i>                                 |  |   |  |                                       |                  |
| In operation                                    | 3,989,500                                    | –                                       | 65,000   | 550                                   | 4,055,050        |
| Not yet start operation/<br>Not yet transferred | 275,500                                      | 30,000                                  | –  | –                                     | 305,500          |
| Total   | <u>4,265,000</u>                             | <u>30,000</u>                           | <u>65,000</u>  | <u>550</u>                            | <u>4,360,550</u> |
| <i>(Number of projects)</i>                     |  |   |  |                                       |                  |
| In operation                                    | 96   | –                                       | 2  | 3                                     | 101              |
| Not yet start operation/<br>Not yet transferred | 10   | 1                                       | –  | –                                     | 11               |
| Total   | <u>106</u>                                   | <u>1</u>                                | <u>2</u>   | <u>3</u>                              | <u>112</u>       |

|   | <b>Number of<br/>projects</b> | <b>Treatment<br/>capacity<br/>(Tonnes/Day)</b> | <b>Actual<br/>processing<br/>volume during<br/>the six months<br/>ended 30 June<br/>2022<br/>(Million Tonnes)</b> |
|---|-------------------------------|--|---|
| <b>Wastewater treatment services</b>      |                               |  |   |
| Shandong                                  | 47                            | 1,270,000                                      | 170.4   |
| Henan                                     | 23                            | 1,060,000                                      | 151.0   |
| Heilongjiang                              | 6                             | 425,000  | 72.7  |
| Shanxi                                    | 2                             | 350,000  | 53.5  |
| Zhejiang                                  | 2                             | 250,000  | 44.5  |
| Guangdong                                 | 4                             | 220,000  | 31.7  |
| Anhui                                     | 3                             | 175,000  | 26.6  |
| Jiangsu                                   | 5                             | 100,000  | 16.1  |
| Other provinces/municipalities*           | 14                            | 415,000  | 34.6  |
|   | 106                           | 4,265,000                                      | 601.1   |
| <b>Water distribution services</b>        | 1                             | 30,000   | –   |
| <b>Reclaimed water treatment services</b> | 2                             | 65,000   | 1.5   |
| <b>Total</b>                              | <b>109</b>                    | <b>4,360,000</b>                               | <b>602.6</b>  |
| <b>Sludge treatment services</b>          | 3                             | 550  | –   |
| <b>Total</b>                              | <b>112</b>                    | <b>4,360,550</b>                               | <b>602.6</b>  |

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

### *1.1.1 Operation Services*

As at 30 June 2022, 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 six months ended 30 June 2022 reached 3,989,500 tonnes (2021: 3,961,500), 65,000 tonnes (2021: 65,000 tonnes), and 550 tonnes (2021: 550 tonnes), respectively. For the six months ended 30 June 2022, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 82% (2021: 86%). The actual average water treatment tariff for the six months ended 30 June 2022 was approximately RMB1.56 per tonne (2021: approximately RMB1.49 per tonne). The actual aggregate processing volume for the six months ended 30 June 2022 was 602.6 million tonnes, basically the same as compared to the same period last year (six months ended 30 June 2021: 606.6 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the six months ended 30 June 2022 was RMB670.1 million, representing an increase of approximately 20% as compared to the same period of last year (six months ended 30 June 2021: RMB558.9 million). The corresponding increase was primarily due to the increase in the daily wastewater treatment capacity, and the increased operation numbers of upgrade projects.

### *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 six months ended 30 June 2022, construction revenue was recognised for 25 projects, including 21 wastewater treatment plants, 1 water distribution plants, 1 reclaimed water treatment plant, and 2 sludge treatment plants, which were mainly located in Shandong, Henan, and Shanxi provinces in Mainland China. Total construction revenue of those projects for the six months ended 30 June 2022 was RMB589.4 million, representing a year-on-year increase of approximately 33% (six months ended 30 June 2021: RMB444.5 million). The corresponding increase was primarily due to speeding up the progress for the existing upgrade and expansion projects. As at 30 June 2022, the total daily treatment capacity of the service concession arrangements plants, which were still in the construction stage, was 180,500 tonnes, including 150,500 tonnes of wastewater treatment plants and 30,000 tonnes of water distribution plants.

## **1.2 Water Environment Comprehensive Remediation**

In the first half of 2022, the Group continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 30 June 2022, 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 5 Water Environment Comprehensive Remediation projects under construction during the six months ended 30 June 2022. The projects were mainly located in Jiangxi and Shandong provinces in Mainland China. For the six months ended 30 June 2022, total revenue of those projects was RMB6.6 million, representing a year-on-year decrease of approximately 90% (six months ended 30 June 2021: RMB68.0 million). The corresponding decrease was primarily due to the completion of partial existing EPC projects.

## **1.3 Rural Water Improvement**

The Group had 2 Rural Water Improvement projects under construction during the six months ended 30 June 2022. The projects were located in Guangdong province in Mainland China. For the six months ended 30 June 2022, total revenue of those projects was RMB35.8 million, representing a year-on-year decrease of approximately 37% (six months ended 30 June 2021: RMB57.1 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 six months ended 30 June 2022, the Group recorded a revenue of RMB1,661.4 million, representing an increase of approximately 12.6% as compared to the previous corresponding period of RMB1,475.5 million. The increase was mainly due to the increase in construction revenue of RMB55.6 million, the increase in operation revenue of RMB117.2 million, and the increase in financial income of RMB13.1 million. The increase in construction revenue was mainly due to speeding up the progress for the existing upgrade and expansion projects of Urban Water Treatment services, and partially offset by the decrease of the construction revenue due to the completion of partial existing EPC and PPP projects of Water Environment Comprehensive Remediation services and Rural Water Improvement 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 six months ended 30 June 2022 amounted to RMB942.9 million, including construction costs of RMB476.9 million and operation costs of water treatment plants of RMB466.0 million, representing an increase of approximately 17.8% as compared to the previous corresponding period of RMB800.1 million. The increase was due to the increase in construction costs and operation costs. The increase in construction costs was mainly due to the increase in the construction work of existing upgrade and expansion projects which was in line with the increase in construction revenue. The increase in operation cost was mainly due to the increases in costs of electricity, wastewater treatment chemicals, etc.

### **Gross Profit Margin**

For the six months ended 30 June 2022, the Group's gross profit margin was approximately 43.2%, representing a decrease of 2.6 percentage points as compared to the previous corresponding period of approximately 45.8%. The decrease was primarily due to the decrease in the proportion of financial income and the decrease in operation gross margin this period.

## **Other Income and Gains**

The Group recorded other income and gains of RMB26.4 million for the six months ended 30 June 2022, representing a decrease of approximately 66% as compared to the previous corresponding period of RMB78.1 million. The amount for the Reporting Period primarily included government grants of RMB12.9 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 RMB1.6 million, interest income of RMB9.5 million from loans to third parties and a joint venture.

## **Administrative Expenses**

The Group’s administrative expenses for the six months ended 30 June 2022 was RMB137.4 million, representing an increase of approximately 23% as compared to the previous corresponding period of RMB111.8 million. The increase was mainly due to the increase professional fees.

## **Finance Costs**

The Group’s finance costs for the six months ended 30 June 2022 of RMB280.3 million mainly comprised interests on interest-bearing bank and other borrowings, representing a slight decrease as compared to RMB283.9 million in the previous corresponding period. The decrease in finance costs was mainly due to the increase in the proportion of short-term interest-bearing bank and other borrowings which bore a relatively lower rate than the long-term one. The average balance of interest-bearing bank and other borrowings increased by RMB288.0 million and the average interest rate was 5.81%, representing a decrease of 0.25 percentage points as compared to that in the previous corresponding period. The decrease in average interest rate was mainly due to the increase in the proportion of short-term interest-bearing bank and other borrowings. 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.

\* For identification purposes only

## Share of Profits and Losses of Associates

The Group's share of losses of associates for the six months ended 30 June 2022 was RMB0.6 million, representing a major decrease as compared to share of losses of associates of RMB2.1 million in the previous corresponding period. The Group will further execute practical ways to reduce the losses brought by the associates.

## Income Tax Expense

Income tax expense for the six months ended 30 June 2022 included the current PRC income tax of RMB14.9 million and deferred tax expenses of RMB58.4 million, which were RMB19.3 million and RMB52.9 million for the previous corresponding period, respectively. The Group's effective tax rate for the six months ended 30 June 2022 was approximately 27%, representing an increase of 4 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              |                     |
|---|--------------------|---------------------|
|   | 30 June<br>2022    | 31 December<br>2021 |
|   | RMB'000            | RMB'000             |
| Receivables for service concession arrangements | 11,188,095         | 10,978,212          |
| Portion classified as current                   | <u>(1,905,114)</u> | <u>(1,878,059)</u>  |
| Non-current portion                             | <u>9,282,981</u>   | <u>9,100,153</u>    |

As at 30 June 2022, the Group's financial receivables of RMB11,188.1 million (31 December 2021: RMB10,978.2 million) increased by RMB209.9 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            |                     |
|-------------------------------|------------------|---------------------|
|                               | 30 June<br>2022  | 31 December<br>2021 |
|                               | RMB'000          | RMB'000             |
| Contract assets               | 2,219,506        | 1,973,035           |
| Portion classified as current | <u>(321,372)</u> | <u>(323,761)</u>    |
| Non-current portion           | <u>1,898,134</u> | <u>1,649,274</u>    |

As at 30 June 2022, the Group's contract assets of RMB2,219.5million (31 December 2021: RMB1,973.0 million), increased by RMB246.5 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 30 June 2022, the Group's trade and bills receivables of RMB2,072.1 million (31 December 2021: RMB1,776.6 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 RMB295.5 million, mainly due to (i) the increase in Urban Water Treatment projects receivables of approximately RMB292.5 million, (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB0.4 million, which included EPC project receivables of approximately RMB37.4 million arising from the progress billing and cash collected from EPC and Build-Transfer projects of approximately RMB37.8 million, and (iii) the increase in Rural Water Improvement projects receivables of approximately RMB10.0 million.

## Prepayments, Other Receivables and Other Assets

As at 30 June 2022, the Group's prepayments, other receivables and other assets of RMB754.8 million (31 December 2021: RMB855.1 million) decreased by RMB100.3 million, mainly arising from the decrease in deductible input VAT of approximately RMB104.2 million, the decrease in prepayments and deposits of approximately RMB6.6 million related to the construction of wastewater treatment plants, and the increase in other operational receivables and staff advances of approximately RMB10.5 million.

## Cash and Cash Equivalents

As at 30 June 2022, the Group's cash and cash equivalents of RMB561.4 million (31 December 2021: RMB289.9 million) increased by RMB271.5 million as compared with that as at the end of previous corresponding period. The increase was due to the net cash inflows from operating, investing, and financing activities of the Group.

|   | For the six months<br>ended 30 June |                 |
|---|-------------------------------------|-----------------|
|   | 2022<br>RMB'000                     | 2021<br>RMB'000 |
| Net cash flows from operating activities <sup>(1)</sup> | 140,146                             | 31,269          |
| Net cash flows from investing activities                | 71,466                              | 116,393         |
| Net cash flows from/(used in) financing activities      | 60,106                              | (60,457)        |
| Net increase in cash and cash equivalents               | 271,718                             | 87,205          |
| Effect of foreign exchange rate changes                 | (258)                               | (102)           |
| Cash and cash equivalents at beginning of the period    | 289,898                             | 430,262         |
| Cash and cash equivalents at end of the period          | 561,358                             | 517,365         |

Note:

- (1) For the six months ended 30 June 2022 and 2021, the Group invested RMB142.0 million and RMB275.6 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 interim condensed consolidated statement of financial position. For the six months ended 30 June 2022 and 2021, the Group would have incurred cash inflows of RMB282.1 million and RMB306.9 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 30 June 2022, the Group's trade and bills payables of RMB2,271.8 million (31 December 2021: RMB2,056.8 million) increased by RMB215.0 million, which was in line with the increase of the Group's construction work in progress and the settlements.

## Other Payables and Accruals

As at 30 June 2022, the Group's other payables and accruals of RMB263.7 million (31 December 2021: RMB278.2 million), decreased by RMB14.5 million, which was mainly due to the decrease in other operational payables.

## **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 30 June 2022, the carrying amount of the Group's cash and cash equivalents was RMB561.4 million, representing an increase of approximately RMB271.5 million as compared to RMB289.9 million as at 31 December 2021, which was mainly due to the net cash inflows of RMB140.1 million from operating activities, the net cash inflows from financing activities of RMB60.1 million, settlements of acquisition and investing payables of RMB0.3 million and cash outflows of RMB46.9 million for purchases of property, plant and equipment and intangible assets in investing activities, cash inflows of RMB90.3 million for decrease in pledged deposits, repurchase of other current financial assets of RMB28.4 million, cash outflows of RMB0.1 million for disposal of subsidiaries from investing activities, and cash inflows of RMB0.1 million for disposal of property, plant and equipment and intangible assets from investing activities.

As at 30 June 2022, the Group's total interest-bearing debts increased to RMB9,832.4 million (31 December 2021: RMB9,469.7 million), which comprised of bank and other borrowings only. As at 30 June 2022, 64.5% (31 December 2021: 66.2%) of the Group's interest-bearing debts are long term; over 58% of interest-bearing bank and other borrowings bear interest at floating rates.

As at 30 June 2022, the Group had banking facilities amounting to RMB58,175.9million, of which RMB49,453.5 million have not been utilized. The unutilized amount of RMB49,333.5 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 30 June 2022, the gearing ratio of the Group (calculated by total liabilities divided by total assets) slightly decreased to 70.5%, while the gearing ratio was 70.7% as at the corresponding period last year.

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

Outstanding balance of interest-bearing bank and other borrowings as at 30 June 2022 was approximately RMB9,832.4 million, which were repayable within one month to twenty-three 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 RMB8,904.2 million.

## **EMPLOYEES AND REMUNERATION POLICIES**

The Group had 2,379 employees as at 30 June 2022. 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 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: 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 30 June 2022, 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, no significant events took place subsequent to 30 June 2022.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

Adapting and adhering to the recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the factors that lead to the success of the Company and in balancing the interests of its shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

The Company has adopted the code provisions included in the corporate governance code (the “Corporate Governance Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Board is of the view that during the six months ended 30 June 2022, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

The Group further strengthened the control over budget, risk, performance and responsibilities, optimized management approaches and strategies, improved supporting mechanism and enhanced control effectiveness and operational efficiency of the Group.

The Group enhanced overall control over target responsibilities and budget control, which was promoted and implemented within the entities under the Group as well as management level, and implemented the main body responsibility system through an organic combination of the trinity of responsibilities, authority and rights to fully stimulate team members’ initiative.

The Group also took initiative to enhance efforts in fund management, financial risk control, project investment decisions, legal risk control, information disclosure and maintenance of investor relationship to strive for more effective and transparent management in accordance with the Corporate Governance Code.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

## **AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS**

The Company has established an audit committee (the “Audit Committee”) to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, overseeing the audit process, monitor, review and assist in the research of the Company’s environmental, social and governance matters, and performing other duties and responsibilities as assigned by the Board. As at 30 June 2022, the Audit Committee consisted of three independent non-executive Directors, being Mr. Chau Kam Wing (chairman), Mr. Chang Qing, and Mr. Peng Yongzhen.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2022. The Audit Committee has also discussed matters with respect to the accounting policies, the practices adopted by the Company and the internal control with senior management members of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as a code of conduct regarding the Directors’ dealings in the Company’s securities.

The Company has made specific enquiry to all of the Directors and all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2022.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement has been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.kangdaep.com](http://www.kangdaep.com). The interim report of the Group for the six months ended 30 June 2022 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board  
**Kangda International Environmental Company Limited**  
*Co-Chairman*  
**Mr. Li Zhong**

Hong Kong, 31 August 2022

*As at the date of this announcement, the Board comprises 7 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.*