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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL SUMMARY

For the year ended 31 December 2023, the Group's:

- revenue amounted to approximately RMB1,807.5 million, representing a decrease of 12.5% from 2022;
- operating profit amounted to approximately RMB615.6 million, representing a decrease of 9.2% from 2022;
- profit before tax amounted to approximately RMB381.7 million, representing an increase of 3.9% from 2022;
- net profit attributable to equity holders of the Company amounted to approximately RMB316.5 million, representing a decrease of 1.8% from 2022; and
- earnings per share amounted to approximately RMB0.31, which was in line with 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) is pleased to announce the audited results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**us**” or “**our**”) for the year ended 31 December 2023 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2022, as follows:

I. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Revenue	3(a)	1,807,488	2,065,863
Cost of sales	4	<u>(1,009,248)</u>	<u>(1,208,592)</u>
Gross profit		798,240	857,271
Selling expenses	4	(2,326)	(4,339)
Administrative expenses	4	(111,878)	(121,307)
Research and development expenses	4	–	(542)
Impairment loss on investment in an associate		(55)	(5,576)
Net impairment losses on financial assets		(110,033)	(114,486)
Other income	5	45,508	68,171
Other losses	6	<u>(3,861)</u>	<u>(890)</u>
Operating profit		615,595	678,302
Finance income	7	39,172	39,338
Finance costs	7	<u>(273,065)</u>	<u>(349,484)</u>
Finance costs – net	7	<u>(233,893)</u>	<u>(310,146)</u>
Share of results of associates		–	<u>(691)</u>
Profit before tax		381,702	367,465
Income tax expense	8	<u>(63,975)</u>	<u>(43,330)</u>
Profit for the year		317,727	<u>324,135</u>

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

	Notes	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operation		<u>860</u>	<u>(1,049)</u>
		<u>860</u>	<u>(1,049)</u>
Total comprehensive income for the year		<u>318,587</u>	<u>323,086</u>
Profit attributable to:			
– Equity holders of the Company		<u>316,506</u>	322,250
– Non-controlling interests		<u>1,221</u>	<u>1,885</u>
		<u>317,727</u>	<u>324,135</u>
Total comprehensive income attributable to:			
– Equity holders of the Company		<u>317,366</u>	321,201
– Non-controlling interests		<u>1,221</u>	<u>1,885</u>
		<u>318,587</u>	<u>323,086</u>
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– Basic and diluted earnings per share	10	<u>0.31</u>	<u>0.31</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Investment properties		267,855	277,462
Right-of-use assets/land use rights		378,384	411,454
Property, plant and equipment		2,485,500	2,716,650
Receivables under service concession arrangements	<i>11</i>	2,528,619	2,546,421
Amounts due from customers for construction contracts	<i>12</i>	701,415	675,715
Contract assets		133,203	109,121
Intangible assets		561,337	547,180
Investments in associates		–	6,526
Deferred tax assets		96,117	81,028
		<u>7,152,430</u>	<u>7,371,557</u>
Current assets			
Receivables under service concession arrangements	<i>11</i>	30,682	44,128
Amounts due from customers for construction contracts	<i>12</i>	27,116	35,602
Inventories		7,570	21,890
Financial assets at amortised cost		179,800	240,000
Trade and other receivables	<i>13</i>	4,437,299	3,676,339
Cash and bank balances		174,088	131,494
Restricted funds		54,865	181,194
		<u>4,911,420</u>	<u>4,330,647</u>
Current liabilities			
Trade and other payables	<i>14</i>	1,380,081	806,410
Contract liabilities		7,163	6,839
Tax payables		142,462	79,431
Borrowings		3,266,653	3,346,394
		<u>4,796,359</u>	<u>4,239,074</u>
Net current assets		<u>115,061</u>	<u>91,573</u>
Total assets less current liabilities		<u>7,267,491</u>	<u>7,463,130</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Deferred revenue		239,728	230,943
Borrowings		2,005,485	2,522,693
Deferred tax liabilities		<u>44,974</u>	<u>51,903</u>
		<u>2,290,187</u>	<u>2,805,539</u>
NET ASSETS		<u>4,977,304</u>	<u>4,657,591</u>
Capital and reserves			
Share capital		1,029,111	1,029,111
Other reserves		1,613,774	1,575,452
Accumulated profits		<u>2,324,597</u>	<u>2,044,427</u>
Equity attributable to equity holders of the Company		4,967,482	4,648,990
Non-controlling interests		<u>9,822</u>	<u>8,601</u>
TOTAL EQUITY		<u>4,977,304</u>	<u>4,657,591</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL

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

As at 31 December 2023, the directors of the Company consider the Company’s immediate and ultimate holding company is Kunming Dianchi Investment Co., Ltd. (昆明滇池投資責任有限公司, “**KDI**”), a state-owned enterprise established in the PRC.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Application of amendments to IFRS Accounting Standards

The Group has applied, the following amendments or annual improvements for the first time to these financial statements for the current accounting period:

IAS 1	Disclosure of Accounting Policies
IAS 8	Definition of Accounting Estimates
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
IAS 12	International Tax Reform — Pillar Two Model Rules
IFRS 17	Insurance Contracts
IFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

None of these amendments have had a material impact on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to IFRS Accounting Standards issued but not yet effective

At the date of approving these consolidated financial statements, the IASB has issued a number of revised IFRS Accounting Standards that are not yet effective for the current year and which the Group has not early adopted. These include the following which may be relevant to the Group.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to IAS 1	Non-current Liabilities with Covenants ⁽¹⁾
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ⁽¹⁾
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ⁽¹⁾
Amendments to IAS 21	Lack of Exchangeability ⁽²⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2024

⁽²⁾ Effective for annual periods beginning on or after 1 January 2025

⁽³⁾ The effective date to be determined

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

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost basis, except for investment properties which are measured at fair value as explained in the accounting policy set out below.

Basis of consolidation

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

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

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

Allocation of total comprehensive income

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in ownership interests

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

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

Subsidiaries

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

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

Associates

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

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

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

In the Company's statement of financial position, investments in associates are also accounted for under the equity method of accounting, less any impairment losses.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue disaggregated by major products or service lines		
Wastewater treatment	1,233,095	1,298,089
Operating services – under TOO/BOO model	910,089	926,026
Operating services – under TOT/BOT model	151,067	205,304
Construction services – under BT model	232	14,888
Construction services – under BOT model	74,768	85,680
Finance income	96,939	66,191
Reclaimed water supply and running water supply	129,440	101,234
Operating services of reclaimed water supply – under TOO/BOO model	40,949	21,294
Operating services of running water supply – under TOT/BOT model	37,496	14,810
Construction services – under BT model	6,278	4,199
Construction services – under BOT model	5,598	29,980
Finance income	39,119	30,951
Others	444,953	666,540
Management services	176,783	332,491
Transportation services	3,094	6,585
Construction services – under BT model	1,413	–
Construction services – under BOT model	55,424	117,733
Thermal production	151,689	144,030
Others	56,550	65,701
	<u>1,807,488</u>	<u>2,065,863</u>

Except for the finance income, all the other revenue represent revenue from contracts with customers within the scope of IFRS 15.

All the above revenue is recognised over time except for revenue from water supply operation and thermal production, which are recognised at a point in time.

“BOO” Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government

“BOT” Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration

“BT” Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction

3. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

“TOO” Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns according to the concession agreement entered into by the enterprise and the government

“TOT” Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration

(b) Segment information

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

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

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

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

This measurement basis excludes fair value gain on financial liabilities at FVPL, finance income, finance costs, impairment loss on investment in an associate and share of results of associates.

Unallocated assets consist of deferred tax assets and investments in associates. Unallocated liabilities consist of financial liabilities at FVPL, deferred tax liabilities and income tax payable.

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

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2023 are presented as below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,233,095</u>	<u>129,440</u>	<u>444,953</u>	<u>1,807,488</u>
Segment gross profit	<u>580,581</u>	<u>63,841</u>	<u>153,818</u>	<u>798,240</u>
Segment profit	<u>456,015</u>	<u>50,765</u>	<u>108,870</u>	<u>615,650</u>
Finance income				39,172
Finance costs				(273,065)
Impairment loss on investment in an associate				<u>(55)</u>
Profit before tax				381,702
Income tax expense				<u>(63,975)</u>
Profit for the year				<u><u>317,727</u></u>
Other segment information included in the measurement of segment profit or segment assets:				
Depreciation of property, plant and equipment	158,835	16,673	57,314	232,822
Depreciation of right-of-use assets	10,210	72	344	10,626
Fair value gain on investment properties	–	–	848	848
Impairment loss on trade receivables	19,284	9,615	1,389	30,288
Impairment loss on financial assets at amortised cost	–	–	60,000	60,000
Impairment loss on other receivables	(7,290)	(620)	17,638	9,728
Impairment loss on receivables under service concession arrangements	5,445	(1,919)	1,443	4,969
Impairment loss on contract assets	3,024	–	–	3,024
Impairment loss on amounts due from customers for construction contracts	107	1,083	834	2,024
Amortisation of intangible assets	11,114	10,974	9,691	31,779
Capital expenditures	<u>77,493</u>	<u>31,555</u>	<u>3,687</u>	<u>112,735</u>

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment assets and liabilities as at 31 December 2023 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	9,180,312	1,762,831	1,024,590	11,967,733
Unallocated:				
Deferred tax assets				<u>96,117</u>
Total assets				<u>12,063,850</u>
Segment liabilities	<u>5,039,664</u>	<u>481,037</u>	<u>1,378,409</u>	<u>6,899,110</u>
Unallocated:				
Deferred tax liabilities				44,974
Tax payables				<u>142,462</u>
Total liabilities				<u>7,086,546</u>

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2022 are presented as below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,298,089</u>	<u>101,234</u>	<u>666,540</u>	<u>2,065,863</u>
Segment gross profit	<u>627,062</u>	<u>40,997</u>	<u>189,212</u>	<u>857,271</u>
Segment profit	<u>484,890</u>	<u>31,702</u>	<u>146,313</u>	<u>662,905</u>
Fair value gain on financial liabilities at FVPL				20,973
Finance income				39,338
Finance costs				(349,484)
Impairment loss on investment in an associate				(5,576)
Share of results of associates				<u>(691)</u>
Profit before tax				367,465
Income tax expense				<u>(43,330)</u>
Profit for the year				<u>324,135</u>
Other segment information included in the measurement of segment profit or assets:				
Depreciation of property, plant and equipment	124,122	9,680	64,435	198,237
Depreciation of right-of-use assets	8,447	659	4,385	13,491
Fair value gain on investment properties	–	–	(1,085)	(1,085)
Impairment loss on trade receivables	15,687	1,223	8,143	25,053
Impairment loss on financial assets at amortised cost	–	–	54,000	54,000
Impairment loss on other receivables	10,160	792	5,275	16,227
Impairment loss on receivables under service concession arrangements	24,143	1,883	–	26,026
Reversal of impairment loss on amounts due from customers for construction contracts	(3,621)	(1,858)	(1,341)	(6,820)
Amortisation of intangible assets	12,643	986	6,563	20,192
Capital expenditures	<u>231,252</u>	<u>18,034</u>	<u>120,049</u>	<u>369,335</u>

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment assets and liabilities as at 31 December 2022 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>7,481,253</u>	<u>1,176,093</u>	<u>2,957,304</u>	<u>11,614,650</u>
Unallocated:				
Deferred tax assets				81,028
Investments in associates				<u>6,526</u>
Total assets				<u><u>11,702,204</u></u>
Segment liabilities	<u>4,384,230</u>	<u>731,065</u>	<u>1,797,984</u>	<u>6,913,279</u>
Unallocated:				
Deferred tax liabilities				51,903
Tax payables				<u>79,431</u>
Total liabilities				<u><u>7,044,613</u></u>

(c) Geographical information

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

(d) Information about major customers

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue from wastewater treatment segment		
Customer A	207,399	905,130
Customer B	696,460	N/A*
Revenue from the other segment		
Customer C	<u>N/A*</u>	<u>309,530</u>

* The corresponding revenue did not contribute 10% or more of the Group's revenue.

4. EXPENSES BY NATURE

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Depreciation of property, plant and equipment	232,822	198,237
Utilities, electricity and office expenditures	27,936	56,252
Employee benefit expenses	193,015	215,499
Costs of wastewater and water supply services	281,379	301,129
Cost of construction services	135,661	222,100
Taxes and levies	25,906	25,393
Repair and maintenance costs	34,081	42,620
Depreciation of right-of-use assets	10,626	13,491
Professional expenses	12,706	39,006
Research and development expenses	–	542
Amortisation of intangible assets	31,779	20,192
Fuels expenses	128,147	124,474
Miscellaneous	9,394	75,845
	<u>1,123,452</u>	<u>1,334,780</u>
Total cost of sales, selling expenses, administrative expenses and research and development expenses	<u>1,123,452</u>	<u>1,334,780</u>

5. OTHER INCOME

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Government grants:	14,079	13,333
– relating to purchase of property plant and equipment	10,037	12,339
– relating to tax refund (<i>Note</i>)	4,042	994
Gain on disposal of a subsidiary	5,352	19,886
Interest income from bank deposits	3,506	4,691
Fair value change of investment properties	848	1,085
Fair value gain of financial liabilities at FVPL	–	20,973
Gross rental income*	11,496	7,333
Others	10,227	870
	<u>45,508</u>	<u>68,171</u>

Note: Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax (“VAT”) Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, companies which sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation of resources can enjoy the policy of value-added tax refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% (2022: 70%) VAT refund.

* The direct operating expenses incurred for investment properties that generated rental income were minimal in both of the years.

6. OTHER LOSSES

	2023 RMB'000	2022 <i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	806	98
Others	3,055	792
	<u>3,861</u>	<u>890</u>

7. FINANCE COSTS – NET

	2023 RMB'000	2022 <i>RMB'000</i>
Finance income:		
– Interest income charged to related parties	38,651	38,987
– Interest income charged to a third party	521	351
	<u>39,172</u>	<u>39,338</u>
Finance costs:		
– Total interest expenses on borrowings	(282,743)	(283,986)
– Interest expenses on unsecured borrowings	(48,152)	(166,598)
– interest expenses on corporate bonds	–	(2,849)
– Interest expenses on secured borrowings	(234,591)	(114,539)
– Less: borrowing costs capitalised in property, plant and equipment	20,747	31,064
– Interest expenses – net	(261,996)	(252,922)
– Exchange loss – net	(10,638)	(91,044)
– Others	(431)	(5,518)
	<u>(273,065)</u>	<u>(349,484)</u>
Finance costs – net	<u>(233,893)</u>	<u>(310,146)</u>

8. INCOME TAX EXPENSE

	2023 RMB'000	2022 <i>RMB'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Current tax – the PRC Corporate Income Tax		
Provision for the year	85,915	75,442
Under (Over) provision in respect of prior years	2,007	(3,035)
	87,922	72,407
Deferred tax	(23,947)	(29,077)
Income tax	63,975	43,330

9. DIVIDENDS

	2023 RMB'000	2022 <i>RMB'000</i>
(a) Final dividends for the year ended 31 December 2022 of RMB Nil per share (tax inclusive) (2021: RMB0.10 (tax inclusive))	–	102,911
(b) Final dividends for the year ended 31 December 2023 of RMB Nil per share (tax inclusive) (2022: RMB Nil (tax inclusive))	–	–
	–	102,911
(c) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, the Board has recommended the payment of a final dividend of RMB Nil per share (tax inclusive) for 2023 (2022: RMB Nil (tax inclusive)).	–	–

10. EARNINGS PER SHARE

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

	2023	2022
Profit attributable to equity holders of the Company (RMB'000)	316,506	322,250
Weighted average number of ordinary shares in issue (thousand)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (RMB)	<u><u>0.31</u></u>	<u><u>0.31</u></u>

The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the years ended 31 December 2023 and 2022.

11. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

Summarised information of the financial assets component (receivables under service concession arrangements) with respect to the Group's service concession arrangements is as follows:

	2023 RMB'000	2022 RMB'000
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	31,379	45,029
Loss allowance	<u>(697)</u>	<u>(901)</u>
	<u>30,682</u>	<u>44,128</u>
Non-current portion:		
Receivables under service concession arrangements	2,586,029	2,600,616
Loss allowance	<u>(57,410)</u>	<u>(54,195)</u>
	<u>2,528,619</u>	<u>2,546,421</u>
	<u><u>2,559,301</u></u>	<u><u>2,590,549</u></u>

As at 31 December 2023 and 2022, the carrying amounts of receivables under services concession arrangements are principally denominated in RMB.

The receivables under service concession arrangements, in which the Group has an unconditional right to receive cash were mainly due from governmental authorities and quasi-government organisations in the PRC, as grantors in respect of the Group's service concession arrangements.

12. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

The amounts due from customers for construction contracts represent contract assets under BT arrangements:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current portion:		
Amounts due from customers for construction contracts	27,732	36,329
Loss allowance	<u>(616)</u>	<u>(727)</u>
	<u>27,116</u>	<u>35,602</u>
Non-current portion:		
Amounts due from customers for construction contracts	717,340	689,505
Loss allowance	<u>(15,925)</u>	<u>(13,790)</u>
	<u>701,415</u>	<u>675,715</u>
	<u><u>728,531</u></u>	<u><u>711,317</u></u>

As at 31 December 2023 and 2022, the carrying amounts of amounts due from customer for construction contracts are principally denominated in RMB.

13. TRADE AND OTHER RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables (Note (b)):		
– Third parties	194,924	202,799
– Related parties	228,236	551,514
– Local government	3,233,175	2,200,998
– Loss allowance	<u>(108,337)</u>	<u>(81,712)</u>
Trade receivables – net	<u>3,547,998</u>	<u>2,873,599</u>
Other receivables:		
– Third parties	97,942	99,155
– Related parties	713,921	584,390
– Local government	28,185	70,666
– Loss allowance	<u>(33,334)</u>	<u>(23,671)</u>
Other receivables – net	<u>806,714</u>	<u>730,540</u>
Prepayments:		
– Others	82,587	72,204
– Loss allowance	<u>–</u>	<u>(4)</u>
Prepayments – net	<u>82,587</u>	<u>72,200</u>
Trade and other receivables – net	<u><u>4,437,299</u></u>	<u><u>3,676,339</u></u>

13. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (a) As at 31 December 2023 and 2022, the carrying amounts of trade and other receivables are principally denominated in RMB. The trade receivables are due for payment upon presentation of invoices.
- (b) Ageing analysis of gross trade receivables at the end of the reporting period, based on the invoice dates, is as follows:

	2023 RMB'000	2022 RMB'000
– Within one year	1,341,523	1,771,954
– Over one year and within two years	1,471,773	1,041,909
– Over two years	843,039	141,448
	<u>3,656,335</u>	<u>2,955,311</u>

14. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Trade payables to third parties (Note (b))	454,721	295,842
Other payables due to:	464,099	172,989
– related parties	9,808	12,104
– local government	94,657	840
– third parties	359,634	160,045
Notes payable	–	20,063
Consideration payable for acquisition of subsidiaries	–	16,464
Staff salaries and welfare payables	60,919	42,704
Payables for acquisition of property, plant and equipment due to:	225,308	175,322
– related parties	28,942	28,942
– third parties	196,366	146,380
Payables for acquisition of land use rights from related parties	31,000	31,000
Interest payables	–	25,442
Accrued taxes other than income tax	24,034	26,584
Advance received from disposal of equity interests in subsidiaries [#]	120,000	–
Total trade and other payables	<u>1,380,081</u>	<u>806,410</u>

- [#]: Pursuant to the Equity Transfer Agreements (the “Agreements”) entered into between the Company and Sichuan Development Guorun Water Investment Co., Ltd., 80% equity interests in each of Zhaotong Dianchi Water Treatment Co., Ltd., Yiliang Dianchi Water Treatment Co., Ltd. and Suijiang Dianchi Water Treatment Co., Ltd. were transferred to each other, and a total transaction security deposit of RMB120,000,000 was received in accordance with the Agreements. The deposit will be deducted from the first tranche of equity transfer payment.

Notes:

- (a) As at 31 December 2023 and 2022, the Group's trade and other payables are principally denominated in RMB.
- (b) Ageing analysis of trade payables to third parties based on the invoice dates at the end of the reporting period is as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	197,904	192,094
– Over one year and within two years	165,679	4,651
– Over two years	91,138	99,097
	<u>454,721</u>	<u>295,842</u>

15. EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Group after the year end up to the date of this announcement.

II. MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING ENVIRONMENT

In 2023, the global political and economic situation remained turbulent, the economic recovery was sluggish, the major economies continued the process of interest rate hikes, the global liquidity was tightened, the interest rate pivot remained high, and the turbulence of international financial market was intensified. In the past year, China's economy withstood external pressure, overcame internal difficulties, adhered to the general keynote of seeking progress while maintaining stability, fully, accurately and comprehensively implemented the new development concept, and accelerated the construction of a new development pattern. We comprehensively deepened reform and opening up, strengthened macro regulation, expanded domestic demand, optimized structure, and prevented and mitigated risks. The basic trend of economic recovery and long-term improvement remained unchanged.

The year 2023 marks the start of fully implementing the spirit of the 20th National Congress of the Communist Party of the PRC and is also a critical year for the continuous implementation of the "14th Five-Year Plan". Accelerating the green transformation of the economy and society, collaboratively promoting high-quality development of the economy and high-level protection of the ecological environment, insisting on comprehensive, systematic and source governance of the ecological environment, promoting the continuous improvement of the quality of the ecological environment, insisting on focusing on precise, scientific, legal and systematic pollution control, as well as deepening the battle of pollution prevention and control shall be China's development direction of continuously improving the quality of the environment. In 2023, the state and local governments continued to strengthen support for the environmental protection industry, of which RMB25.7 billion was allocated as the fund of water pollution prevention and control by the central government and RMB17.2 billion was allocated as the fund of key ecological protection, restoration and governance, in order to continue to support the development of national land greening actions and the protection and restoration of ecosystems such as forests, grasslands, wetlands and oceans. In terms of policies, the State convened the National Conference on Ecological and Environmental Protection, passed the "Guiding Opinions on Further Promoting the Treatment of Rural Domestic Sewage", and promoted the implementation of major projects in the field of ecological environment in the "14th Five-Year Plan", etc., which continuously injected energy into the development of the environmental protection industry.

1. Overview of Wastewater Treatment Industry

Sewage treatment is an important part of the environmental protection field and an important industry related to social development. Since the "14th Five-Year Plan", with the PRC government actively introducing relevant supporting policies and regulations, actively introducing market mechanisms and increasing investment, wastewater treatment capacity has grown rapidly, and a wastewater treatment pattern of "integrated plant and network, treating water and soil concurrently, and recycling" has been established gradually. Especially since 2023, the Ministry of Finance and the Ministry of Ecology and Environment jointly initiated the pilot work of black and odorous water body treatment in rural areas in 2023, which further clarified the key points and requirements of the treatment. The development space of the sewage treatment industry has been further released.

In recent years, with the improvement of environmental protection industry standards and the increase in electricity prices, raw material prices, labor costs and construction costs, the sewage treatment industry's operating pressure also gradually increased, forcing the industry to change. In the future, the enterprises which take the lead in realizing digitalization, intelligence and professionalization are expected to gain a dominant position in the fierce market. At the same time, with the continuous improvement of social requirements for the water environment, a large number of sewage treatment plants need to be upgraded and transformed, which also brings new development space for the overall technological progress of China's sewage treatment industry.

2. Overview of Reclaimed Water Industry

China is a country with a shortage of water resources, and the comprehensive utilization of reclaimed water provides a practical path to alleviate water resources. With the state promoting development of reclaimed water successively, presently the work of urban wastewater recycling has been fully launched, the state and local governments have launched the relevant scientific research and engineering practices to encourage the construction of a regional reclaimed water recycling system. The "Guiding Opinions on Strengthening the Allocation and Utilization of Unconventional Water Sources", issued in July 2023, proposed that by 2025, the national utilization volume of unconventional water sources would exceed 17 billion cubic meters and the utilization rate of reclaimed water in water-scarce cities at prefecture level and above would reach more than 25%. Reclaimed water, which can be used as the second water source for cities and the first water source for the industry, can largely alleviate the problem of insufficient natural water resources. The utilization of reclaimed water has significant benefits, is technically feasible, is supported by policy guarantee and operational experience, has realistic and long-term significance in terms of economic, social and environmental benefits, and has huge development potential and market space.

3. Overview of Municipal Water Supply Industry

All along, the water supply industry is one of the most important industries related to the national economy and people's livelihood. With the progress of urban and rural water supply integration, the water supply industry is mainly concentrated in the field of municipal water supply. In recent years, China has introduced a series of policies to promote the market-oriented reform of the water supply industry. The separation of government and enterprises and the entry of private capital further activated the market vitality of the water supply industry, and the increase in the demand for water also continued to promote the growth of the integrated production capacity of urban water supply and the length of water supply pipelines in China, which facilitated the development of the water supply industry.

On 25 May 2023, the Central Committee of Communist Party of China, the State Council issued the “Outline of the National Water Network Construction Plan”, proposing to improve the system and mechanism, and clearly stating that we shall accelerate the reform of the water supply price of the water network, innovation and improve the price formation mechanism combining water supply for public welfare and water supply for operation, make every effort to open up the “last kilometer” of the water network, speed up promoting the reformation of water networks of cities and counties and rural water supply, and promote healthy operation. In the future, with the continuous improvement of the municipal water supply price mechanism, market incentive mechanism and market-based trading mechanism for water rights, and the in-depth implementation of policies such as the “Measures for the Management of Urban Water Supply Prices” and the “Measures for the Supervision and Examination of Pricing Costs of Urban Water Supply”, such measures will bring positive effects on the clarification of fees and prices and the realization of sustainable development by water supply enterprises. The acceleration of China’s urbanization process and the continuous promotion of the integrated development strategy of urban and rural water supply will become an inexhaustible impetus for the sustainable development of the industry, and at the same time will also put forward higher requirements for the high-quality development of the industry.

B. DEVELOPMENT STRATEGY AND FUTURE PROSPECTS

Looking ahead to 2024, despite the rising complexity, severity and uncertainty of the external environment, and the difficulties and challenges of economic development, China’s economy has good momentum, strong resilience, full vitality, abundant dividends and wide space, faces more opportunities than challenges, and has stronger favorable conditions than unfavorable factors. China’s economy is expected to continuously rebound and improve in 2024.

The year of 2024 is an important year to promote the construction of Beautiful China. Guided by the important strategic plans such as the “High Quality Development of the Yangtze River Economic Belt”* (長江經濟帶高質量發展), “National Development Plan for the Resource Utilization of Urban Wastewater Treatment Agents in the 14th Five-Year Plan”* (十四五城鎮污水處理及資源化利用發展規劃) and the “14th Five-Year Plan for the Development of the Environmental Protection Industry”* (十四五環保產業發展規劃) in Yunnan Province, the Company adheres to the development philosophy of “unitary domination with diversified development”, upholds the general working keynote of “seeking progress while maintaining stability and promoting stability through progress” and is committed to enhancing its comprehensive ecological and environmental management capabilities. In the future, the Company will continue to cultivate its main wastewater treatment business, explore resource utilization of solid waste disposal, enhance core competitiveness in key technology areas such as comprehensive use of high-quality reclaimed water and expand the industry chain of ecological and environmental protection. We will optimize the industrial structure, revitalize the stock, make good use of the increment, stimulate the internal impetus, broaden the financing channels, strengthen the prediction and judgment of the situation, seize new opportunities, and realize the Company’s high-quality and healthy development in a stable operation.

C. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO model. For the year ended 31 December 2023, our TOO projects contributed to 52.6% of our total revenue. Our TOT and BOT projects contributed to 17.9% of our total revenue, and we also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT model, we finance, construct and operate relevant facilities. After the expiration of the relevant concessions, we either obtained new concessions from or transferred the relevant facilities back to the relevant local governments, depending on the project type. As of 31 December 2023, we had a total of 44 plants (39 wastewater treatment plants and 5 running water plants) under concession agreements. Among the 44 plants in operation, 14 were TOO projects, 18 were TOT projects, 10 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilisation rate of our facilities was maintained at a high level. For the year ended 31 December 2023, the total volume of wastewater treated was approximately 719.9 million m³ with an average facility utilisation rate of approximately 98.6%.

Wastewater Treatment Projects

As of 31 December 2023, we had a total of 39 wastewater treatment plants in operation (including 14 in Kunming and 25 in other areas of the PRC), with a total wastewater treatment capacity of 2.0 million m³ per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while providing high quality wastewater treatment services. The Company's wastewater treatment plants in operation adopt a variety of processes such as oxidation ditch, A2/O, ICEAS, MBR, CAST and SBR. The Company's core competitiveness in the wastewater treatment industry is its extensive and comprehensive operational management experience and technical management team.

During the Reporting Period, we newly signed the Concession Agreement for the Kunming Shilin County Township Water Environment Improvement Project (Phase I), and obtained 30-year concession rights for each sub-project under the agreement. In addition, we have been entrusted to operate and manage rural domestic sewage collection and treatment facilities in 887 villages, covering 12 towns.

Reclaimed Water Business

We carried out the reclaimed water business by relying on our own sewage treatment plants that provide entrusted operation services. As of 31 December 2023, we had 12 reclaimed water stations and 2 second-stage booster pump stations. Meanwhile, we provided entrusted operation services for 5 reclaimed water stations/booster pump stations, with a total designed daily production capacity of reclaimed water facilities of 329,000 m³. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions and other entities in Kunming. During the Reporting Period, reclaimed water supply was 100.5 million m³.

During the Reporting Period, our reclaimed water supply maintained a significant growth, primarily due to the increase in the supply of river water replenishment during the Reporting Period. The Company has wastewater treatment plants in a number of regions across the country, which lay a solid foundation for the future development of our reclaimed water business in those regions, and we will continue to promote the development of our reclaimed water business in accordance with local policies and market demand and supply conditions.

Running Water Business

For our running water business, as of 31 December 2023, we had 5 running water plants in the PRC. During the Reporting Period, the supply of running water amounted to 16.462 million m³, and the quality of water supplied met the requirements of the “Standards for Drinking Water Quality GB5749-2022”* (《生活飲用水衛生標準GB5749-2022》).

D. MAJOR RISKS

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

Capital-intensive characteristics of the industry

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

We are required to make substantial capital investments during the initial phases of our projects. These investments are primarily dependent on the funds we raised from our global offering, bank loans, corporate bonds and other means of financing. For the year ended 31 December 2023, our total borrowings amounted to RMB5,272.1 million, representing a decrease of 10.2% from RMB5,869.1 million in 2022. As of 31 December 2023, our net gearing ratio, calculated as net debt divided by total capital, was 50.3%.

We expect to continue to utilise bank loans, corporate bonds and a diverse combination of financing facilities to finance a portion of our investments in our projects. The interest rate of bank loans is mainly affected by the quoted market rate of RMB loans issued by the National Interbank Funding Center each month. Increase in interest rates may increase our total interest expenses on RMB borrowings. The financing efficiency and financing cost of corporate bonds and other financing instruments are affected by factors such as the economic environment, financing market conditions and the Company’s own operating conditions. Changes in relevant factors may affect the Company’s financing efficiency and financing costs.

Requirements of water quality standards

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

Force majeure events

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

E. FINANCIAL REVIEW

1. Consolidated Results of Operations

Our revenue decreased by RMB258.4 million, or 12.5%, to RMB1,807.5 million for the year ended 31 December 2023, from RMB2,065.9 million for the year ended 31 December 2022. Gross profits decreased by RMB59.1 million, or 6.9%, to RMB798.2 million for the year ended 31 December 2023, from RMB857.3 million for the year ended 31 December 2022. During the Reporting Period, revenue from wastewater treatment services, reclaimed water and running water supply and other segments accounted for 68.2%, 7.2% and 24.6% of the total revenue, respectively.

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	1,807,488	2,065,863
Cost of sales	<u>(1,009,248)</u>	<u>(1,208,592)</u>
Gross profit	798,240	857,271
Selling expenses	(2,326)	(4,339)
Administrative expenses	(111,878)	(121,307)
Research and development expenses	–	(542)
Impairment loss on investment in an associate	(55)	(5,576)
Net impairment losses on financial assets	(110,033)	(114,486)
Other income	45,508	68,171
Other losses	<u>(3,861)</u>	<u>(890)</u>
Operating profit	<u>615,595</u>	<u>678,302</u>
Finance income	39,172	39,338
Finance costs	<u>(273,065)</u>	<u>(349,484)</u>
Finance costs – net	(233,893)	(310,146)
Share of results of associates	<u>–</u>	<u>(691)</u>
Profit before tax	381,702	367,465
Income tax	<u>(63,975)</u>	<u>(43,330)</u>
Profit for the year	317,727	324,135
Other comprehensive income	<u>860</u>	<u>(1,049)</u>
Total comprehensive income for the year	<u>318,587</u>	<u>323,086</u>

a. Revenue

Our revenue decreased by RMB258.4 million, or 12.5%, to RMB1,807.5 million for the year ended 31 December 2023 from RMB2,065.9 million for the year ended 31 December 2022, primarily due to:

- Our revenue from wastewater treatment business decreased by RMB65.0 million or 5.0% from RMB1,298.1 million for the year ended 31 December 2022 to RMB1,233.1 million for the year ended 31 December 2023. In particular, wastewater treatment operating income decreased by RMB70.1 million, which was mainly due to the completion of the disposal of Fanchang Dianchi Water Co., Ltd. (“**Fanchang Dianchi Water**”) and Qujing Dianchi Water Co., Ltd. (“**Qujing Dianchi Water**”) in the previous year and in September this year, respectively; the construction income decreased by approximately RMB25.6 million, which was mainly due to the decrease in wastewater treatment construction projects in 2023, and further decrease in investment in existing projects as compared to 2022 as such projects gradually entered the final stage of construction; and the increase in finance income of approximately RMB30.7 million.
- Our revenue from water supply segment increased by RMB28.2 million or 27.9% from RMB101.2 million for the year ended 31 December 2022 to RMB129.4 million for the year ended 31 December 2023. In particular, water supply operating income increased by approximately RMB42.3 million, which was mainly due to the increase in the volume of water supply of water supply operation services; the construction income decreased by approximately RMB22.3 million, which was mainly due to the decrease in new reclaimed water supply and fresh water supply construction projects in 2023, and decrease in investment in existing projects as compared to 2022 as such projects gradually entered the final stage of construction; and the increase in finance income of approximately RMB8.2 million.
- Our revenue from other segments decreased by RMB221.5 million or 33.2% from RMB666.5 million for the year ended 31 December 2022 to RMB445.0 million for the year ended 31 December 2023. The management service income decreased by approximately RMB155.7 million resulting from the decrease in water treatment volume due to the disposal of water plants by the entrusting party of operation and management business provided by the Company in 2023; the construction income decreased by approximately RMB60.9 million resulting from the decrease in investment in existing projects such as the Kunming Domestic Waste Sanitary Landfill Construction Project as compared to 2022. The gas and thermal supply increased during the year, resulting in an increase of approximately RMB7.7 million in relevant income.

b. Cost of sales

Our cost of sales decreased by RMB199.4 million, or 16.5%, to RMB1,009.2 million for the year ended 31 December 2023, from RMB1,208.6 million for the year ended 31 December 2022. Details are as follows:

- Our cost of sales for wastewater treatment segment decreased by RMB18.5 million, or 2.8%, to RMB652.5 million for the year ended 31 December 2023, from RMB671.0 million for the year ended 31 December 2022.
- Our cost of sales for water supply segment increased by RMB5.4 million, or 9.0%, to RMB65.6 million for the year ended 31 December 2023, from RMB60.2 million for the year ended 31 December 2022.
- Our cost of sales for other segments decreased by RMB186.2 million, or 39.0%, to RMB291.1 million for the year ended 31 December 2023, from RMB477.3 million for the year ended 31 December 2022. In particular, due to the disposal of water plants by the entrusting party, the entrusted management costs decreased by approximately RMB175.6 million.

c. Gross margin

Our gross profit decreased by RMB59.1 million, or 6.9%, to RMB798.2 million for the year ended 31 December 2023, from RMB857.3 million for the year ended 31 December 2022, which was mainly due to the decrease in gross profit from wastewater treatment segment of RMB46.5 million, increase in gross profit from water supply segment of RMB22.8 million and decrease in gross profit from other segments of RMB35.4 million.

Our gross margin increased by 2.7 percentage points from 41.5% for the year ended 31 December 2022 to 44.2% for the year ended 31 December 2023.

- Our gross profit from wastewater treatment segment decreased by RMB46.5 million, or 7.4%, to RMB580.6 million for the year ended 31 December 2023, from RMB627.1 million for the year ended 31 December 2022. Our segment gross margin decreased by 1.2 percentage points from 48.3% for the year ended 31 December 2022 to 47.1% for the year ended 31 December 2023.
- Our gross profit from water supply segment increased by RMB22.8 million, or 55.6%, to RMB63.8 million for the year ended 31 December 2023, from RMB41.0 million for the year ended 31 December 2022. Our segment gross margin increased by 8.8 percentage points from 40.5% for the year ended 31 December 2022 to 49.3% for the year ended 31 December 2023.

- Our gross profit from other segments decreased by RMB35.4 million, or 18.7%, to RMB153.8 million for the year ended 31 December 2023, from RMB189.2 million for the year ended 31 December 2022. Our segment gross margin increased by 6.2 percentage points from 28.4% for the year ended 31 December 2022 to 34.6% for the year ended 31 December 2023.

d. *Selling expenses*

Our selling expenses decreased by RMB2.0 million or 46.5% from RMB4.3 million for the year ended 31 December 2022 to RMB2.3 million for the year ended 31 December 2023, which was mainly due to the decrease in employee benefits and selling service fees for sales personnel during the Reporting Period.

e. *Administrative expenses*

Administrative expenses decreased by RMB9.4 million, or 7.7%, to RMB111.9 million for the year ended 31 December 2023, from RMB121.3 million for the year ended 31 December 2022.

f. *Research and development expenses*

Research and development expenses decreased by RMB0.5 million, or 100%, to RMB nil for the year ended 31 December 2023, from RMB0.5 million for the year ended 31 December 2022, which was mainly due to no research and development activities during the Reporting Period.

g. *Net impairment losses on financial assets*

Impairment losses on financial assets decreased by RMB4.5 million or 3.9% from RMB114.5 million for the year ended 31 December 2022 to RMB110.0 million for the year ended 31 December 2023.

h. *Other income*

Our other income decreased from RMB68.2 million for the year ended 31 December 2022 to RMB45.5 million for the year ended 31 December 2023, representing a decrease of RMB22.7 million or 33.3%, which was mainly due to the gain on disposal of RMB5.3 million from the disposal of Qujing Dianchi Water and Liuyang Hongyu Thermal Power Co., Ltd. (“**Hongyu Thermal Power**”) during the Reporting Period, which was far less than that of RMB19.9 million from the disposal of Fanchang Dianchi Water in the previous Reporting Period.

i. *Other losses*

Our other losses increased to other losses of RMB3.9 million for the year ended 31 December 2023, from other losses of RMB0.9 million for the year ended 31 December 2022.

j. Operating profit

As a result of the foregoing factors, our operating profit decreased by RMB62.7 million, or 9.2%, to RMB615.6 million for the year ended 31 December 2023, from RMB678.3 million for the year ended 31 December 2022. Our operating margins for the years ended 31 December 2023 and 31 December 2022 were 34.1% and 32.8%, respectively.

k. Finance income

Our finance income decreased by RMB0.1 million, or 0.3%, to RMB39.2 million for the year ended 31 December 2023, from RMB39.3 million for the year ended 31 December 2022.

l. Finance costs

Our finance costs decreased by RMB76.4 million, or 21.9%, to RMB273.1 million for the year ended 31 December 2023, from RMB349.5 million for the year ended 31 December 2022, primarily due to the exchange loss of RMB10.6 million from the foreign currency borrowings of the Company due to change in foreign exchange in 2023, representing a decrease of RMB80.4 million from last year, and the decrease of RMB12.4 million in fees for discounted bills and entrusted loans.

m. Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB14.2 million, or 3.9%, to RMB381.7 million for the year ended 31 December 2023 from RMB367.5 million for the year ended 31 December 2022.

n. Income tax expense

We incurred income tax expenses of RMB43.3 million for the year ended 31 December 2022 and RMB64.0 million for the year ended 31 December 2023 at effective tax rates of 11.8% and 16.8%, respectively. Certain subsidiaries were eligible for the preferential corporate income tax rate for small and micro-profit enterprises and certain subsidiaries were eligible for the preferential 15% corporate income tax rate under the “Western Development Policy” during the year. In addition, certain newly upgraded wastewater treatment facilities owned by certain PRC subsidiaries meet the criteria provided in the catalogue for public basic infrastructure projects qualified for corporate income tax preferential treatments and are entitled to three years’ exemption from corporate income tax followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects, and certain PRC subsidiaries used resources specified in the catalogue of resources comprehensive utilization projects eligible for preferential corporate income tax rate and 10% of the income of such subsidiaries was not subject to corporate income tax.

o. Total comprehensive income

As a result of the foregoing factors, our total comprehensive income decreased by RMB4.5 million, or 1.4%, to RMB318.6 million for the year ended 31 December 2023 from RMB323.1 million for the year ended 31 December 2022.

2. Liquidity and Capital Resources

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

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

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from (used in) operating activities	220,948	(302,629)
Net cash from (used in) investing activities	303,830	(96,537)
Net cash used in financing activities	(480,552)	(973,537)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	44,226	(1,372,703)
Effect of change in foreign exchange rates	(1,632)	(149)
Cash and cash equivalents at the beginning of the Reporting Period	131,494	1,504,346
	<hr/>	<hr/>
Cash and cash equivalents at the end of the Reporting Period	174,088	131,494
	<hr/> <hr/>	<hr/> <hr/>

a. Net cash from (used in) operating activities

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

For the year ended 31 December 2023, our net cash from (used in) operating activities was net inflow of RMB220.9 million, primarily comprising cash received in operations amounting to RMB523.3 million, income tax paid amounting to RMB23.4 million and interest paid amounting to RMB278.9 million. The net cash from operating activities in 2023 increased by RMB523.5 million compared with that of 2022, primarily due to the increase in cash received in operations in 2023 as compared to 2022.

b. Net cash from (used in) investing activities

Our net cash from (used in) investing activities primarily consisted of cash received from disposal of subsidiaries, repayments received from related parties and used for purchase of property, plant and equipment, loans to related parties and other investments.

As of 31 December 2023, the net cash from (used in) investing activities amounted to net inflow of RMB303.8 million, primarily comprising the purchase of property, plant and equipment amounting to RMB84.8 million, purchase of intangible assets amounting to RMB0.9 million, net collection of loans granted to related parties amounting to RMB50.2 million, interests received amounting to RMB44.9 million, proceeds from disposal of subsidiaries of RMB140.0 million and advance received from disposal of equity interests in subsidiaries of RMB120.0 million. The net cash from investing activities in 2023 increased by RMB400.3 million compared with that of 2022, primarily due to the decrease in cash paid for the purchase of property, plant and equipment as compared with last year, the increase in proceeds from disposal of subsidiaries received and interests received as compared to last year.

c. Net cash used in financing activities

Our net cash used in financing activities primarily represents repaying and obtaining borrowings. Our net cash generated from financing activities decreased from net outflow of RMB973.5 million for the year ended 31 December 2022 to net outflow of RMB480.6 million for the year ended 31 December 2023, which was primarily attributable to a decrease in repayment of borrowings in 2023 compared with 2022.

3. Working Capital

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets		
Receivables under service concession arrangements	30,682	44,128
Amounts due from customers for construction contracts	27,116	35,602
Inventories	7,570	21,890
Financial assets at amortised cost	179,800	240,000
Trade and other receivables	4,437,299	3,676,339
Cash and bank balances	174,088	131,494
Restricted funds	54,865	181,194
	<u>4,911,420</u>	<u>4,330,647</u>
Total current assets	4,911,420	4,330,647
Current liabilities		
Trade and other payables	1,380,081	806,410
Contract liabilities	7,163	6,839
Tax payables	142,462	79,431
Borrowings	3,266,653	3,346,394
	<u>4,796,359</u>	<u>4,239,074</u>
Total current liabilities	4,796,359	4,239,074
Net current assets	115,061	91,573

We recorded net current assets of RMB115.1 million as at 31 December 2023 and net current assets of RMB91.6 million as at 31 December 2022.

a. *Receivables under service concession arrangements*

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

Our receivables under service concession arrangements decreased by RMB13.4 million or 30.4% from RMB44.1 million on 31 December 2022 to RMB30.7 million on 31 December 2023, primarily due to the decrease in receivables under service concession arrangements which expire within one year.

b. *Inventories*

Our total inventory balance decreased by RMB14.3 million, or 65.3%, to RMB7.6 million as of 31 December 2023 from RMB21.9 million as of 31 December 2022, which was mainly due to the decrease in coal deposit resulting from the disposal of Hongyu Thermal Power.

Our inventory turnover days decreased from 5.8 days on 31 December 2022 to 5.3 days on 31 December 2023 (calculated as the average inventories for the relevant year divided by the cost of sales recognised for the relevant year, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2022 and 2023).

c. *Amounts due from customers for construction contracts*

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

Our total amounts due from customers for construction contracts decreased by RMB8.5 million, or 23.9%, to RMB27.1 million as of 31 December 2023 from RMB35.6 million as of 31 December 2022.

d. *Trade and other receivables*

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

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables:		
– Third parties	194,924	202,799
– Related parties	228,236	551,514
– Local government	3,233,175	2,200,998
– Loss allowance	(108,337)	(81,712)
	<u>3,547,998</u>	<u>2,873,599</u>
Trade receivables – net		
	<u>3,547,998</u>	<u>2,873,599</u>
Other receivables:		
– Third parties	97,942	99,155
– Related parties	713,921	584,390
– Local government	28,185	70,666
– Loss allowance	(33,334)	(23,671)
	<u>806,714</u>	<u>730,540</u>
Other receivables – net		
	<u>806,714</u>	<u>730,540</u>
Prepayments:		
– Others	82,587	72,204
– Impairment loss	–	(4)
	<u>82,587</u>	<u>72,200</u>
Prepayments – net		
	<u>82,587</u>	<u>72,200</u>
Trade and other receivables – net		
	<u>4,437,299</u>	<u>3,676,339</u>

Our net trade and other receivables increased by RMB761.0 million, or 20.7%, to RMB4,437.3 million as of 31 December 2023 from RMB3,676.3 million as of 31 December 2022, reflecting in (i) an increase in trade receivables due from local government by RMB1,032.2 million, or 46.9%, to RMB3,233.2 million as of 31 December 2023 from RMB2,201.0 million as of 31 December 2022; (ii) a decrease in amounts due from related parties by RMB323.3 million, or 58.6%, to RMB228.2 million as of 31 December 2023 from RMB551.5 million as of 31 December 2022; (iii) an increase in other amounts due from related parties by RMB129.5 million, or 22.2%, to RMB713.9 million as of 31 December 2023 from RMB584.4 million as of 31 December 2022; and (iv) an increase in total prepayment of approximately RMB10.4 million in 2023.

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
– Within one year	1,341,523	1,771,954
– Over one year and within two years	1,471,773	1,041,909
– Over two years	843,039	141,448
	<u>3,656,335</u>	<u>2,955,311</u>

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
– Within one year	1,341,523	1,771,954
– Over one year and within two years	1,471,773	1,041,909
– Over two years	843,039	141,448
	<u>3,656,335</u>	<u>2,955,311</u>

The Group does not hold any collateral as security.

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

	As at 31 December	
	2023	2022
	Days	Days
Trade receivable turnover days ⁽¹⁾	648.4	404.9
Trade and other receivable turnover days ⁽²⁾	819.2	579.5

Notes:

(1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2022 and 2023.

- (2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2022 and 2023.

Our trade receivables turnover days increased by 243.5 days in 2023 as compared with 2022, mainly due to the delays in government payment during the Reporting Period.

e. Trade and other payables/Contract liabilities

Trade and other payables

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

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables	454,721	295,842
Other payables	464,099	172,989
Note payables	–	20,063
Consideration unpaid for acquisition of subsidiaries	–	16,464
Staff salaries and welfare payables	60,919	42,704
Payables on acquisition of property, plant and equipment	225,308	175,322
Payables on acquisition of land use rights from related parties	31,000	31,000
Interest payables	–	25,442
Accrued taxes other than income tax	24,034	26,584
Advance received from disposal of equity interests in subsidiaries	120,000	–
	<u>1,380,081</u>	<u>806,410</u>

Contract liabilities

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contract liabilities		
– related parties	3,184	3,184
– third parties	3,979	3,655
	<u>7,163</u>	<u>6,839</u>

Our trade and other payables increased by RMB573.7 million, or 71.1%, to RMB1,380.1 million as of 31 December 2023 from RMB806.4 million as of 31 December 2022, which was mainly due to the increase in payables to third parties, other payables to third parties and the increase in advance received from disposal of equity interests in subsidiaries in 2023.

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
– Within one year	197,904	192,094
– Over one year and within two years	165,679	4,651
– Over two years	91,138	99,097
	<u>454,721</u>	<u>295,842</u>

As at 31 December 2022 and 2023, except for other payables arising from financing nature, all trade and other payables of the Group were not required to pay interests, and their fair values approximated their carrying amounts due to their short maturities.

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

	As at 31 December	
	2023	2022
	Days	Days
Trade and other payables turnover days ⁽¹⁾	395.4	224.3
Trade payables turnover days ⁽²⁾	182.7	132.4

Notes:

- (1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2022 and 2023.
- (2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December 2022 and 2023.

Our trade payables turnover days increased by 50.3 days in 2023 as compared with 2022, mainly due to the increase in trade payables during the Reporting Period and the decrease in total purchase as compared with the last year.

The Directors confirm that up to 31 December 2023, there was no material default in payment of trade payables.

4. Indebtedness

a. Borrowings

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Non-current portion		
Unsecured long-term borrowings	169,200	989,400
Secured long-term borrowings	<u>1,836,285</u>	<u>1,533,293</u>
Total non-current borrowings	<u><u>2,005,485</u></u>	<u><u>2,522,693</u></u>
Current portion		
Unsecured short-term borrowings	875,770	2,687,428
Secured short-term borrowings	<u>2,390,883</u>	<u>658,966</u>
Total current borrowings	<u><u>3,266,653</u></u>	<u><u>3,346,394</u></u>
Total borrowings	<u><u>5,272,138</u></u>	<u><u>5,869,087</u></u>

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

	As at 31 December	
	2023	2022
Weighted average effective interest rates	<u>5.17%</u>	<u>4.05%</u>

As of 31 December 2022 and 2023, our total borrowings amounted to RMB5,869.1 million and RMB5,272.1 million respectively, mainly due to the decrease in total borrowings for the year of RMB597.0 million as a result of the reduction in the number of construction projects undertaken by the Company during the Reporting Period, lower capital requirements for construction and the Company's timely repayment of borrowings. Among our indebtedness, borrowings amounting to RMB20.0 million and RMB2,196.1 million as of 31 December 2022 and 2023 respectively, were secured by our sewage treatment revenue.

As of 31 December 2023, we did not have any breaches of covenants in the loan agreements that could materially affect our business operations and no bank has withdrawn any banking facilities previously extended to us or demanded early repayment of borrowings. As we have the ability to obtain borrowings from other banks, we believe that we are not subject to any potential risk of withdrawal of banking facilities or early repayment of outstanding loans. As of 31 December 2023, we had not received any requests for early repayment of the principal or interests under any of our loan agreements.

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
On demand or within 1 year	3,266,653	3,346,394
Between 1 and 2 years	99,100	928,216
Between 2 and 5 years	1,369,599	1,304,021
Later than 5 years	<u>536,786</u>	<u>290,456</u>
	<u>5,272,138</u>	<u>5,869,087</u>

As of 31 December 2022 and 2023, our net gearing ratios were 54.4% and 50.3%, respectively. Our net gearing ratios as at 31 December 2023 decreased by 4.1% as compared with 31 December 2022, primarily due to the changes in cash and cash equivalent and net debt for the current period during the Reporting Period.

Except as disclosed above, as of 31 December 2023, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

b. Commitments

(a) Capital commitments

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Property, plant and equipment	<u>13,648</u>	<u>499,550</u>

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Concession projects and construction projects	<u>727,479</u>	<u>1,760,522</u>

c. Capital expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB369.3 million and RMB112.7 million for the years ended 31 December 2022 and 2023, respectively. We expect to fund our contractual commitments and capital expenditures principally through net cash generated from our operating activities and proceeds from borrowings.

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Wastewater treatment	77,493	231,252
Water supply	31,555	18,034
Others	3,687	120,049
	<hr/>	<hr/>
Total	112,735	369,335
	<hr/> <hr/>	<hr/> <hr/>

Based on our current business plan, we expect to incur capital expenditure amounting to RMB72.8 million for the year ending 31 December 2024. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

5. Off-balance sheet arrangements

Save as disclosed in this announcement, as of 31 December 2023, we did not have any outstanding off-balance sheet guarantees, commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. The Group's policy is not to participate in and invest in any financial products that are speculative and/or have significant risks. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

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

In order to enhance the efficiency of use of proceeds and reduce finance costs, and in light of the needs of the Company's business development, the Board meetings held on 5 July 2022 and 1 March 2023 changed the use of net proceeds from the Global Offering (for details, please refer to the Company's announcements dated 5 July 2022 and 1 March 2023, respectively). Based on the changed use and using plan, the net proceeds from the Global Offering have been fully utilised on or before 30 June 2023 in accordance with the changed use (accounting for 100% of net proceeds from the Initial Public Offering). The use of proceeds is as follows:

	Percentage of total net proceeds from the Initial Public Offering	Planned use of net proceeds from the Initial Public Offering	Unused net proceeds from the Initial Public Offering as at 1 January 2023	Actual use of net proceeds from the Initial Public Offering for the period from 1 January 2023 to 31 December 2023	Actual use of net proceeds from the Initial Public Offering for the period from the Listing Date to 31 December 2023	Unused net proceeds from the Initial Public Offering
Use after change		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Investments in BOT/BOO wastewater treatment and running water supply projects	34%	361.72	-	-	361.72	-
To acquire TOT/TOO wastewater treatment plants and running water supply projects	27%	289.70	-	-	289.70	-
Repayment of bank borrowings	25%	271.74	13.27	13.27	271.74	-
To supplement working capital and for general corporate purposes	14%	156.14	4.12	4.12	156.14	-
Total	100%	1,079.30	17.39	17.39	1,079.30	-

The net proceeds from the Initial Public Offering were used according to the intentions previously disclosed in the Prospectus and the Company's announcement dated 5 July 2022 and 1 March 2023, respectively. Save as disclosed above, as of 31 December 2023, there was no material change in the use of net proceeds of the Company.

7. Exchange rate risk and management

The Group still retains some foreign currency funds and foreign currency borrowings, and foreign currency funds mainly include Hong Kong dollars and US dollars, with principals of HKD740,330,000 and USD11,613,000 respectively. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. For part of the foreign currency borrowings, we enter into an agreement with a domestic financial institution which converts the foreign currency borrowings into Renminbi borrowings to lend to the Group. The Group repays the corresponding foreign currency interest in Renminbi upon each payment of principal and interest.

8. Employees and remuneration policies

Relationship with Employees

As of 31 December 2023, we had 1,253 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2023:

Function	Number
Management and Administration	175
Finance	52
Research and Development	63
Quality Monitoring	230
Marketing	17
Operations	673
Construction and Maintenance	43
	<hr/>
Total	<u><u>1,253</u></u>

We recruit our employees on the open market. Compensation for our employees includes basic wages, performance-based wages, bonuses and other staff benefits. For the years ended 31 December 2022 and 2023, our employee benefits amounted to approximately RMB215.5 million and RMB193.0 million, respectively.

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

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

9. Contingent liabilities

As of 31 December 2023, the Group did not have any significant contingent liabilities.

10. Material charges on assets

As at 31 December 2023, the Group's secured bank and other borrowings are secured by:

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

11. Major investment and acquisition

On 29 September 2021, the Company (as the asset entrustor) entered into an asset management agreement (the “**Mutual Trust No. 5 Asset Management Agreement**”) with Bosera Capital Management Co., Ltd. (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited* (招商銀行股份有限公司昆明分行) (“**China Merchants Bank**”) (as the asset trustee) in relation to the investment and management of the entrusted assets. Pursuant to the agreement, the Company agreed to entrust an amount of RMB300 million as the entrusted assets for investment in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. (“**KADI**”) for a term of 3 months. The Company invested RMB300 million in such asset management plan. On 31 December 2021, the parties to the agreement entered into a supplemental agreement in relation to the extension of the term of the Mutual Trust No. 5 Asset Management Agreement, extending the term of the Mutual Trust No. 5 Asset Management Agreement and the asset management plan thereunder to 10 April 2022. For details, please refer to the announcements of the Company dated 29 September 2021 and 31 December 2021.

The Mutual Trust No. 5 Asset Management Agreement has expired on 10 April 2022. As at the maturity date, the asset manager allocated the assets under the asset management plan to the Company in their current status as at the maturity date in accordance with the terms of the Mutual Trust No. 5 Asset Management Agreement. For details, please refer to the announcement of the Company dated 11 April 2022.

As at the end of the Reporting Period, such asset management plan accounted for approximately 1.5% of the total assets of the Company. As at the date of this announcement, KADI has yet to fully repurchase such creditor's rights of the trade receivables.

During the Reporting Period, the Group did not have any new significant investments and acquisitions (including material acquisitions of subsidiaries, associates and joint ventures). During the Reporting Period, the Company did not enter into any new significant investment and acquisition agreements, and the projects under the original investment and acquisition agreements are actively progressing.

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

Save as disclosed above, the Group had no plans of major investments or capital and asset acquisition as of 31 December 2023.

12. Disposal of subsidiaries, associates and joint ventures

On 15 September 2023, the Company (as transferor), the People's Government of Malong District, Qujing City, Yunnan Province (as Transferee I), Qujing Zefeng Water Co., Ltd.* (曲靖澤豐水務有限公司) (as Transferee II) (Transferee I and Transferee II are collectively referred to as the "Transferees") and Qujing Dianchi Water (as the Target Company), entered into an equity transfer agreement, pursuant to which, the Company has conditionally agreed to sell and the Transferees have conditionally agreed to purchase 100% equity interest in Qujing Dianchi Water for a consideration comprising the equity transfer price, the borrowings provided by the Company to Qujing Dianchi Water, the dividends payable by Qujing Dianchi Water to the Company and 50% of the profit or loss for the transitional period to be determined based on the audit for the transitional period, of which the profit or loss for the transitional period shall be subject to final audit. It is estimated that the consideration will not exceed RMB151,154,000. Qujing Dianchi Water is principally engaged in wastewater treatment and running water supply businesses. Upon completion of the Disposal, Qujing Dianchi Water ceased to be a subsidiary of the Company, the Group ceased to have any equity interest in Qujing Dianchi Water and its financial results ceased to be consolidated in the accounts of the Group. For details, please refer to the announcement of the Company dated 15 September 2023.

As of the end of the Reporting Period, the relevant procedures of equity transfer have been completed.

On 20 December 2023, the Company (as the transferor), Hunan Zhihong Paper Industry Co., Ltd.* (湖南志鴻紙業有限公司) (as the Transferee) and Hongyu Thermal Power (as the Target Company) entered into an equity transfer agreement, pursuant to which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 100% equity interest in Hongyu Thermal Power, at a consideration comprising the equity transfer price of RMB43.579 million and the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon, of which the interest on the loan shall be determined based on the amount calculated up to the date of actual repayment, and it is estimated that the total consideration will not exceed RMB48.756 million. Hongyu Thermal Power is principally engaged in power supply, heat generation and sales. Upon completion of the Disposal, Hongyu Thermal Power ceased to be a subsidiary of the Company, the Group ceased to have any equity interest in Hongyu Thermal Power and its financial results ceased to be consolidated in the accounts of the Group. For details, please refer to the announcements of the Company dated 20 December 2023 and 27 December 2023, respectively.

As of the end of the Reporting Period, the relevant procedures of equity transfer were in progress.

On 29 December 2023, (i) the Company (as the Transferor), Sichuan Development Guorun Water Investment Co., Ltd.* (四川發展國潤水務投資有限公司) (as the Transferee) and Zhaotong Dianchi Water Treatment Co., Ltd. (as the Target Company I) entered into the Equity Transfer Agreement I; (ii) the Company (as the Transferor), Sichuan Development Guorun Water Investment Co., Ltd.* (四川發展國潤水務投資有限公司) (as the Transferee) and Yiliang Dianchi Water Treatment Co., Ltd. (as the Target Company II) entered into the Equity Transfer Agreement II; and (iii) the Company (as the Transferor), Sichuan Development Guorun Water Investment Co., Ltd.* (四川發展國潤水務投資有限公司) (as the Transferee) and Suijiang Dianchi Water Treatment Co., Ltd. (as the Target Company III) entered into the Equity Transfer Agreement III, pursuant to all of which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in each of the Target Companies, at a consideration comprising the equity transfer price in the sum of approximately RMB242,762,000 and the interest of approximately RMB2,413,000 in total as agreed to be calculated based on the price to be paid by the Transferee in instalments, of which the interest as agreed to be calculated based on the price to be paid by the Transferee in instalments shall be subject to the final actual calculated amount, and it is estimated that the total consideration will not exceed RMB245,175,000. Upon completion of the Disposal, the Group will only be interested in 20% of each of the Target Companies, each of which will cease to be subsidiaries of the Company, and their financial results will cease to be consolidated into the consolidated financial statements of the Group. For details, please refer to the announcements of the Company dated 29 December 2023.

As of the end of the Reporting Period, the relevant procedures of equity transfer were still in progress.

Save as disclosed above, the Company had no other disposal of subsidiaries, associates and joint ventures as of 31 December 2023.

13. Loans to Certain Entities

On 9 June 2022, the Company entered into an entrusted loan contract with Kunming Urban Construction and Investment Development Co., Ltd. (“**Kunming Construction**”) and Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社) (“**Panlong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Panlong District Rural Credit Cooperative to provide a loan of RMB310 million to Kunming Construction with an annual interest rate of 8.5% which became due on 8 June 2023. Kunming Dianchi Investment provided a full and joint liability guarantee for the entrusted loan transaction under the entrusted loan contract. On 9 June 2023, the parties entered into an extension agreement for the entrusted loan contract dated 9 June 2022 to extend the term of RMB180 million of the principal amount thereunder to 8 June 2024. For details, please refer to the announcements of the Company dated 9 June 2022, 9 June 2023 and 12 June 2023.

On 24 October 2022, the Company entered into the entrusted loan contract with Kunming Development and Investment Group Co., Ltd. (“**Kunming DIG**”) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) (“**Chenggong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a loan of RMB200 million to Kunming DIG with an annual interest rate of 8.5%, which became due on 24 September 2023. On 22 September 2023, the parties entered into an extension agreement for the entrusted loan contract dated 24 October 2022 to extend the term of the entrusted loan transaction thereunder to 24 August 2024. For details, please refer to the announcements of the Company dated 24 October 2022, 22 September 2023, 13 November 2023 and the circular of the Company dated 26 October 2023, respectively.

On 16 June 2023, the Company entered into the entrusted loan contract with Kunming Anju Group Co., Ltd. (“**Anju Group**”) and Jinma Branch of Kunming Guandu Rural Cooperative Bank* (昆明官渡農村合作銀行金馬支行) (“**Jinma Branch of Guandu Rural Cooperative Bank**”), pursuant to which the Company entrusted Jinma Branch of Guandu Rural Cooperative Bank to provide a RMB80 million loan to Anju Group with an annual interest rate of 8.5% and a term commencing on 16 June 2023 and ending on 16 June 2024. For details, please refer to the announcement of the Company dated 16 June 2023.

According to the knowledge of the Company, Kunming Construction, Kunming DIG and Anju Group are all controlled or held by the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (the “**Kunming SASAC**”) and Kunming DIG holds approximately 15.58% of the shares of Kunming Construction. Saved as disclosed above, Kunming Construction, Kunming DIG and Anju Group are not related to each other, and neither are they the connected persons as defined in the Listing Rules.

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

14. Pledge of shares by the Controlling Shareholder

On 24 October 2022, Kunming Dianchi Investment, the Controlling Shareholder, entered into an agreement with Agricultural Bank of China Limited Kunming Dianchi National Tourism Resort Sub-branch (the “**Lender**”), to pledge up to 198,080,068 domestic shares in the issued shares of the Company, representing 30% of its shareholding of the Company (the “**Pledged Shares**”), in favour of the Lender as security for a loan facility in an aggregate amount of RMB200,000,000 granted to the Company (the “**Loan Facility**”). The Pledged Shares represent approximately 19.25% of the total issued shares of the Company, and are expected to be discharged and released upon repayment of the Loan Facility in full. For details, please refer to the announcement of the Company dated 23 October 2022. As of the end of the Reporting Period, the Loan Facility was not yet due.

15. Facility agreement subject to due performance of specific conditions by the Controlling Shareholder

On 25 March 2022, Dianchi International Holdings Limited (the “**Borrower**”), a direct wholly-owned subsidiary of the Company, as borrower and the Company as guarantor signed a facility agreement (“**Facility Agreement**”) with various banks (the “**Banks**”). Pursuant to the Facility Agreement, the Banks will provide the banking facilities of up to US\$300 million or equivalent foreign currency (the “**Facility**”) to the Borrower. The final repayment date of the Facility shall be the date falling 36 months after the first withdrawal date. As at the date of entering into the Facility Agreement, Kunming SASAC holds 90% of the share capital of Kunming Dianchi Investment, and Kunming Dianchi Investment holds approximately 64.16% of the issued share capital of the Company. Pursuant to the Facility Agreement, if Kunming SASAC no longer directly or indirectly owns more than 51% of the share capital of the Company, it would be deemed as a change of control, and the Banks would be entitled to cancel its loan facilities pursuant to the Facility Agreement and to declare that all amounts outstanding under the Facility (including interests accrued) and all other amounts shall immediately become due and payable (unless waived by the majority of the Banks). For details, please refer to the Company’s announcement dated 25 March 2022. During the Reporting Period, the Company entered into a pledge of receivables contract with Bank of Communications (Hong Kong) Limited (as the guarantee agent), pursuant to which the Company pledged the trade receivables of RMB800 million held by it to Bank of Communications (Hong Kong) Limited to provide guarantee for the loans under the loan agreement signed by the Group on 25 March 2022.

As at the date of this announcement, Kunming SASAC directly or indirectly owned more than 51% of the share capital of the Company and no change of control as described in the Facility Agreement has occurred.

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Being a company listed on the Stock Exchange, the Company is always dedicated to maintaining the corporate governance practices at a high standard. The Company has adopted the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”) and other provisions relating to corporate governance as its own corporate governance code. During the Reporting Period, the Company had established various committees under the Board and formulated the relevant corporate governance system in accordance with the provisions contained in the Corporate Governance Code.

The Directors of the Company believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the Corporate Governance Code except for provision B.2.2.

Under code provision B.2.2, every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years. As at the end of the Reporting Period, the terms of office of the first Board and the board (the “**Board of Supervisors**”) of supervisors (the “**Supervisors**”) of the Company have expired for 3 years, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers the continuity of the Board and the Board of Supervisors. Under the relevant provisions of the Articles of Association of the Company, if, upon the expiry of a director’s term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the Articles of Association of the Company. Therefore, the Board considers that deviations from provision B.2.2 of the Corporate Governance Code will not have a significant impact on the Group’s operation as a whole and the Company will complete the relevant work as soon as possible.

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “**Model Code**”) as its own code of conduct for its directors, supervisors and relevant employees (has the same meaning ascribed to it under the Corporate Governance Code) in respect of their dealings in the Company’s securities. After making specific enquiries to all of the Directors and Supervisors, the Directors and Supervisors confirmed that they had strictly complied with the required standards as set out in the Model Code during the Reporting Period.

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

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

VI. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2023 prepared in accordance with the International Financial Reporting Standards in 2023.

VII. SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Company's auditor, Messrs. Mazars CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

VIII. FINAL DIVIDEND

Taking into account the future plans and the financial position and cash flow position of the Company, the Board does not recommend the distribution of a final dividend for the year ended 31 December 2023 (for the year ended 31 December 2022: no final cash dividend).

IX. CLOSURE OF REGISTER OF MEMBERS

The Company expects to convene and hold the Company's 2023 annual general meeting (the "2023 AGM") at 2:30 pm on Friday, 28 June 2024 at the meeting room of the Company on the 1st floor at Wastewater Plant No.7, Kunming Dianchi Tourist Resort, Yunnan Province, the PRC.

For the purpose of determining H shareholders' entitlement to attend the 2023 AGM, the H share register of shareholders of the Company will be closed from Friday, 7 June 2024 to Friday, 28 June 2024 (both days inclusive), during which no transfer of shares will be registered. In order to attend the 2023 AGM, H share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H share registrar, Tricor Investor Services Limited, 17/F Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Thursday, 6 June 2024. The H share shareholders of the Company whose names appear on the Company's register of shareholders for H shares as at Friday, 28 June 2024 are entitled to attend the 2023 AGM.

X. PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2023 will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) in due course in accordance with the requirements of the Listing Rules. Meanwhile, shareholders of the Company may choose to receive the annual report of the Company for the year ended 31 December 2023 in printed form or browsing and downloading on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) in accordance with the relevant policy of “New Arrangements on Dissemination of Corporate Communications” published by the Company on 31 January 2024.

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

Kunming, the PRC, 27 March 2024

As of the date of this announcement, the Board comprises Mr. Zeng Feng, Mr. Chen Changyong and Mr. Miao Xianjun, as executive Directors; Mr. Xu Jingdong, Mr. Zhou Jianbo and Mr. Zhang Yang, as non-executive Directors; and Mr. Zha Guiliang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

* *For identification purposes only*