

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED**

**康達國際環保有限公司**

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

**(Stock Code: 6136)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

**HIGHLIGHTS**

- Revenue was approximately RMB2,216.4 million, representing a decrease of approximately 23.5% over the last year owing to the decrease in revenue from construction services.
- Gross profit was RMB1,076.0 million, representing a decrease of 15.2% over the last year. Due to the increases in the proportion of operating services revenue, gross profit margin increased to 48.5% comparing with 43.8% for the last year.
- Profit attributable to owners of the parent was approximately RMB124.8 million, representing a decrease of approximately 47.1% as compared to the last year due to the decrease in total revenue comparing with the last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year were RMB5.83 cents, representing a decrease of approximately 47.0% as compared with RMB11.01 cents of the last year.
- Net cash inflow from operating activities maintained positive and recorded RMB292.9 million, representing a decrease of 20.5% over the last year.
- For the year ended 31 December 2023, the actual aggregate processing volume reached 1,265.7 million tonnes, representing an increase of approximately 3.2% as compared with 1,226.6 million tonnes of the last year.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2023.

The board (the “Board”) of directors (the “Directors”) of Kangda International Environmental Company Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 December 2023 together with the comparative figures for the year ended 31 December 2022 as follows:

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

*Year ended 31 December 2023*

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
<b>REVENUE</b>	3	<b>2,216,381</b>	2,896,589
Cost of sales		<u><b>(1,140,387)</b></u>	<u>(1,627,942)</u>
Gross profit		<b>1,075,994</b>	1,268,647
Other income and gains	4	<b>59,789</b>	53,873
Selling and distribution expenses		<b>(994)</b>	(936)
Administrative expenses		<b>(283,090)</b>	(274,125)
Other expenses		<b>(43,397)</b>	(105,868)
Finance costs	5	<b>(578,719)</b>	(566,214)
Share of profits and losses of:			
Associates		<b>4,699</b>	2,554
Joint ventures		<u><b>(328)</b></u>	<u>(3,590)</u>
<b>PROFIT BEFORE TAX</b>	6	<b>233,954</b>	374,341
Income tax expense	7	<u><b>(103,726)</b></u>	<u>(134,379)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>130,228</b></u>	<u>239,962</u>
Attributable to:			
Owners of the parent	8	<b>124,753</b>	235,679
Non-controlling interests		<u><b>5,475</b></u>	<u>4,283</u>
		<u><b>130,228</b></u>	<u>239,962</u>
<b>EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic for profit for the year (expressed in RMB per share)	8	<u><b>5.83 cents</b></u>	<u>11.01 cents</u>
Diluted for profit for the year (expressed in RMB per share)	8	<u><b>5.83 cents</b></u>	<u>11.01 cents</u>

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

*Year ended 31 December 2023*

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(16,000)	115,000
Income tax effect	<u>2,400</u>	<u>(17,250)</u>
	<b>(13,600)</b>	97,750
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>(13,600)</u>	<u>97,750</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		
	<u>(13,600)</u>	<u>97,750</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		
	<u><b>116,628</b></u>	<u>337,712</u>
Attributable to:		
Owners of the parent	<b>111,153</b>	333,429
Non-controlling interests	<u>5,475</u>	<u>4,283</u>
	<u><b>116,628</b></u>	<u>337,712</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2023*

	<i>Notes</i>	<b>2023</b>	2022
		<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>53,378</b>	59,006
Investment properties		<b>11,083</b>	11,218
Right-of-use assets		<b>2,286</b>	1,435
Investments in associates		<b>234,577</b>	381,131
Investments in joint ventures		<b>78,091</b>	78,419
Service concession intangible assets		<b>1,376,539</b>	1,436,965
Other intangible assets		<b>1,776</b>	2,171
Goodwill		<b>58,325</b>	58,325
Financial receivables	9	<b>9,512,959</b>	9,244,530
Deferred tax assets		<b>84,362</b>	75,058
Prepayments, other receivables and other assets		<b>25,191</b>	73,754
Contract assets	10	<b>1,177,367</b>	1,508,393
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Total non-current assets		<b>12,615,934</b>	12,930,405
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>CURRENT ASSETS</b>			
Inventories		<b>18,092</b>	17,482
Contract assets	10	<b>77,629</b>	198,553
Equity investments designated at fair value through other comprehensive income		<b>347,000</b>	363,000
Financial receivables	9	<b>2,079,291</b>	1,961,955
Trade receivables	11	<b>2,808,513</b>	2,436,439
Prepayments, other receivables and other assets		<b>903,826</b>	674,372
Pledged deposits		<b>128,713</b>	186,561
Cash and cash equivalents		<b>248,360</b>	196,938
Other current financial assets		<b>4</b>	45
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Total current assets		<b>6,611,428</b>	6,035,345
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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

31 December 2023

		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	2,013,332	2,260,221
Other payables and accruals		177,286	257,076
Deferred income		–	1,930
Interest-bearing bank and other borrowings	13	3,501,475	2,879,809
Tax payable		79,356	59,403
		<u>5,771,449</u>	<u>5,458,439</u>
Total current liabilities		<u>5,771,449</u>	<u>5,458,439</u>
<b>NET CURRENT ASSETS</b>			
		<u>839,979</u>	<u>576,906</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>13,455,913</u>	<u>13,507,311</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade payables	12	201	59
Interest-bearing bank and other borrowings	13	6,415,560	6,642,008
Other payables and accruals		30,629	31,026
Deferred tax liabilities		1,159,491	1,093,610
		<u>7,605,881</u>	<u>7,766,703</u>
Total non-current liabilities		<u>7,605,881</u>	<u>7,766,703</u>
Net assets		<u>5,850,032</u>	<u>5,740,608</u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital		17,125	17,125
Reserves		5,694,664	5,586,310
		<u>5,711,789</u>	<u>5,603,435</u>
Non-controlling interests		<u>138,243</u>	<u>137,173</u>
Total equity		<u>5,850,032</u>	<u>5,740,608</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1.1 BASIS OF PREPARATION

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

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

## 1.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

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

## 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and the impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

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

- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any significant impact on the financial position of the Group as at 1 January 2022 and 31 December 2022 or its consolidated financial performance for the year ended 31 December 2022. The Group has adopted the amendments on temporary differences related to leases from 1 January 2023.
  
- (d) Amendments to IAS 12 *International Tax Reform — Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

## 2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2023	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>				
Sales to external customers	2,123,024	43,438	49,919	2,216,381
Total segment revenue	2,123,024	43,438	49,919	2,216,381
<b>Segment results</b>	512,121	(16,281)	(11,119)	484,721
<i>Reconciliation:</i>				
Unallocated income and gains				18,615
Share of profits and losses of unallocated associates				3,777
Share of profit and loss of an unallocated joint venture				(42)
Corporate and other unallocated expenses				(56,902)
Unallocated lease-related finance costs				(156)
Unallocated finance costs (other than interest on lease liabilities)				(216,059)
Profit before tax				233,954
<b>Segment assets</b>	16,511,177	1,253,543	636,810	18,401,530
<i>Reconciliation:</i>				
Corporate and other unallocated assets				825,832
Total assets				19,227,362
<b>Segment liabilities</b>	12,473,546	489,654	362,094	13,325,294
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				52,036
Total liabilities				13,377,330

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2023	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Other segment information</b>				
Investments in associates	–	234,258	–	234,258
Unallocated investments in associates				319
Investment in a joint venture	69,656	–	–	69,656
Unallocated investment in a joint venture				8,435
Share of profits and losses of associates	–	922	–	922
Share of profits and losses of unallocated associates				3,777
Share of profit and loss of a joint venture	(286)	–	–	(286)
Share of profit and loss of an unallocated joint venture				(42)
Impairment losses recognised in profit or loss, net <sup>#</sup>	(31,690)	(2,231)	–	(33,921)
Depreciation and amortisation	65,837	18	25,046	90,901
Unallocated depreciation and amortisation				3,803
Total depreciation and amortisation				<u>94,704</u>
Capital expenditure	15,497	–	19,256	34,753
Unallocated amounts				8
Total capital expenditure*				<u>34,761</u>

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

# The impairment losses recognised in profit or loss consists of the impairment of financial receivables, the impairment of contract assets, the impairment of trade receivables and the impairment of other receivables.

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2022	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>				
Sales to external customers	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>
Total Segment Revenue	2,723,107	114,410	59,072	2,896,589
<b>Segment results</b>	558,915	24,161	(4,809)	578,267
<i>Reconciliation:</i>				
Unallocated income and gains				9,728
Share of profits and losses of unallocated associates				1,363
Share of profit and loss of an unallocated joint venture				(1,060)
Corporate and other unallocated expenses				(45,594)
Unallocated lease-related finance costs				(108)
Unallocated finance costs (other than interest on lease liabilities)				<u>(168,255)</u>
Profit before tax				<u><u>374,341</u></u>
<b>Segment assets</b>	16,067,718	1,422,044	673,140	18,162,902
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>802,848</u>
Total assets				<u><u>18,965,750</u></u>
<b>Segment liabilities</b>	12,061,589	522,441	515,810	13,099,840
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>125,302</u>
Total liabilities				<u><u>13,225,142</u></u>

## 2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2022	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Other segment information</b>				
Investments in associates	–	233,924	–	233,924
Unallocated investments in associates				147,207
Investment in a joint venture	69,942	–	–	69,942
Unallocated investment in a joint venture				8,477
Share of profits and losses of associates	–	1,191	–	1,191
Share of profits and losses of unallocated associates				1,363
Share of profit and loss of a joint venture	(2,530)	–	–	(2,530)
Share of profit and loss of an unallocated joint venture				(1,060)
Impairment losses recognised in profit or loss, net <sup>#</sup>	(29,753)	(8,292)	–	(38,045)
Depreciation and amortisation	65,814	22	16,212	82,048
Unallocated depreciation and amortisation				4,048
Total depreciation and amortisation				<u>86,096</u>
Capital expenditure	110,835	–	34,851	145,686
Unallocated amounts				39
Total capital expenditure*				<u>145,725</u>

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

# The impairment losses recognised in profit or loss consists of the impairment of financial receivables, the impairment of contract assets, the impairment of trade receivables and the impairment of other receivables.

## 2. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

#### (a) Revenue from external customers

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Chinese Mainland	<u>2,216,381</u>	<u>2,896,589</u>

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

#### (b) Non-current assets

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Chinese Mainland	<u>12,531,572</u>	<u>12,855,347</u>

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

### Information about major customers

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

#### Year ended 31 December 2023

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer A	152,322	152,322
Customer C	<u>134,881</u>	<u>134,881</u>
	<u>287,203</u>	<u>287,203</u>

#### Year ended 31 December 2022

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer B	356,209	356,209
Customer C	<u>186,917</u>	<u>186,917</u>
	<u>543,126</u>	<u>543,126</u>

### 3. REVENUE

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the “Grantors”) on a Build-Operate-Transfer (“BOT”) or a Transfer-Operate-Transfer (“TOT”) basis in respect of its WTPs, RWTPs, WDPs, STPs or other municipal infrastructure. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating WTPs, RWTPs, WDPs, STPs or other municipal infrastructure on behalf of the Grantors for periods ranging from 17 to 30 years (the “Service Concession Periods”), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism.

The Group carries out construction works of other municipal infrastructure under engineering procurement construction (“EPC”) arrangements and agrees with EPC customers to enter into a settled agreement for the construction work during the construction.

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

#### Revenue from contracts with customers

	<b>2023</b>	2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue from operating services	<b>1,295,986</b>	1,267,485
Revenue from construction services	<b>173,630</b>	893,178
Financial income from service concession arrangements	<b>746,765</b>	735,926
Total	<b><u>2,216,381</u></b>	<u>2,896,589</u>

### 3. REVENUE (continued)

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

##### (a) Disaggregated revenue information

For the year ended 31 December 2023

Segments	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>	<b>2,123,024</b>	<b>43,438</b>	<b>49,919</b>	<b>2,216,381</b>
<b>Geographical market</b>				
Chinese Mainland	2,123,024	43,438	49,919	2,216,381
Total revenue from contracts with customers	2,123,024	43,438	49,919	2,216,381
<b>Timing of revenue recognition</b>				
Services transferred over time	2,123,024	43,438	49,919	2,216,381
Total revenue from contracts with customers	2,123,024	43,438	49,919	2,216,381

For the year ended 31 December 2022

Segments	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>	<b>2,723,107</b>	<b>114,410</b>	<b>59,072</b>	<b>2,896,589</b>
<b>Geographical market</b>				
Chinese Mainland	2,723,107	114,410	59,072	2,896,589
Total revenue from contracts with customers	2,723,107	114,410	59,072	2,896,589
<b>Timing of revenue recognition</b>				
Services transferred over time	2,723,107	114,410	59,072	2,896,589
Total revenue from contracts with customers	2,723,107	114,410	59,072	2,896,589

### 3. REVENUE (continued)

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

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

Revenue from construction services, operating services of waste water treatment, reclaimed water treatment, water distribution and sludge treatment and financial income from service concession arrangements are recognised over time.

##### (b) Performance obligations

The aggregate amount of the transaction prices allocated to the performance obligations of BOT and TOT arrangements that are unsatisfied (or partially unsatisfied) as at 31 December 2023 was RMB33 billion (2022: RMB35 billion). The performance obligations expected to be recognised in more than one year relate to the services to be performed in respect of the BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

### 4. OTHER INCOME AND GAINS

	2023 RMB'000	2022 RMB'000
Government grants*	20,230	25,447
Interest income from loans to a third party	20,087	18,672
Dividend income from equity investments designated at fair value through other comprehensive income	9,602	–
Bank interest income	2,522	3,560
Interest income from loans to an associate and a joint venture	1,663	840
Rental income less depreciation of investment properties	1,274	516
Foreign exchange differences, net	510	–
Others	3,901	4,838
Total	<u>59,789</u>	<u>53,873</u>

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

### 5. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on interest-bearing bank and other borrowings	578,563	566,106
Interest on lease liabilities	156	108
Total	<u>578,719</u>	<u>566,214</u>

## 6. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
Cost of construction services		<b>206,487</b>	758,048
Cost of operation services		<b>933,900</b>	869,894
Total cost of services		<b>1,140,387</b>	1,627,942
Depreciation of property, plant and equipment		<b>5,758</b>	6,877
Depreciation of right-of-use assets		<b>1,172</b>	283
Amortisation of service concession intangible assets		<b>87,244</b>	77,654
Amortisation of other intangible assets		<b>395</b>	406
Impairment of financial receivables <sup>#</sup>	<i>9</i>	<b>829</b>	(67)
Impairment of contract assets <sup>#</sup>	<i>10</i>	<b>(147)</b>	(547)
Impairment of trade receivables <sup>#</sup>	<i>11</i>	<b>30,646</b>	36,080
Impairment of other receivables <sup>#</sup>		<b>2,593</b>	2,579
Lease payments not included in the measurement of lease liabilities		<b>389</b>	278
Auditor's remuneration		<b>2,552</b>	2,656
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		<b>235,984</b>	250,065
Pension scheme contributions (defined contribution scheme)*		<b>25,078</b>	24,153
Total employee benefit expense		<b>261,062</b>	274,218
Operating lease income		<b>(1,409)</b>	(1,392)
Less: Depreciation of investment properties		<b>135</b>	876
Rental income less depreciation of investment properties	<i>4</i>	<b>(1,274)</b>	(516)
Bank interest income	<i>4</i>	<b>(2,522)</b>	(3,560)
Government grants	<i>4</i>	<b>(20,230)</b>	(25,447)
Interest income from loans to a third party	<i>4</i>	<b>(20,087)</b>	(18,672)
Interest income from loans to a joint venture and an associate	<i>4</i>	<b>(1,663)</b>	(840)
Loss on disposal of items of property, plant and equipment, net		<b>32</b>	39
Loss on disposal of a subsidiary		–	1,359
Loss on disposal of an associate		<b>5,781</b>	–
Foreign exchange differences, net		<b>(510)</b>	47,918

<sup>#</sup> The impairment of financial receivables, the impairment of contract assets, the impairment of trade receivables and the impairment of other receivables are included in "Other expenses" in profit or loss.

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

## 7. INCOME TAX EXPENSE

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current		
— Chinese Mainland	44,749	36,901
Deferred	<u>58,977</u>	<u>97,478</u>
Total tax charge for the year	<u><u>103,726</u></u>	<u><u>134,379</u></u>

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,139,735,000 (2022: 2,139,735,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Earnings:</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>124,753</u>	<u>235,679</u>
	<b>Number of shares</b>	
	2023	2022
<b>Shares:</b>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>2,139,735,000</u>	<u>2,139,735,000</u>

## 9. FINANCIAL RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Receivables under service concession arrangements	<b>11,595,265</b>	11,208,671
Impairment	<b>(3,015)</b>	(2,186)
Net carrying amount	<b>11,592,250</b>	11,206,485
Portion classified as current assets	<b>(2,079,291)</b>	(1,961,955)
Non-current portion	<b>9,512,959</b>	9,244,530

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

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
At beginning of year	<b>2,186</b>	2,253
Impairment losses	<b>829</b>	(67)
At end of year	<b>3,015</b>	2,186

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

The increase in the loss allowance was mainly due to the increase in the gross carrying amount of financial receivables.

As at 31 December 2023, the Group's financial receivables with a carrying value of RMB7,957,461,000 (2022: RMB7,114,919,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

## 10. CONTRACT ASSETS

	<b>31 December 2023 RMB'000</b>	31 December 2022 RMB'000
Contract assets arising from:		
Construction services	<b>1,255,667</b>	1,707,764
Impairment	<u>(671)</u>	<u>(818)</u>
Net carrying amount	<u><b>1,254,996</b></u>	<u>1,706,946</u>
Portion classified as current assets	<u>(77,629)</u>	<u>(198,553)</u>
Non-current portion	<u><b>1,177,367</b></u>	<u>1,508,393</u>

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to intangible assets and contract assets included in financial receivables under service concession arrangements and operating concession for BOT arrangements and trade receivables for other construction contracts when the rights to considerations are unconditional. The decrease in contract assets in 2023 was the result of the completion of construction services.

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

	<b>2023 RMB'000</b>	2022 RMB'000
At beginning of the year	<b>818</b>	1,365
Impairment losses, net ( <i>note 6</i> )	<u>(147)</u>	<u>(547)</u>
At end of the year	<u><b>671</b></u>	<u>818</u>

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

At 31 December 2023, the Group's contract assets with a carrying value of RMB12,590,000 (2022: RMB220,770,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (*note 13*).

Included in the Group's contract assets are amounts due from the Group's associates of RMB38,928,000 (2022: RMB47,245,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

## 11. TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	<b>2,918,555</b>	2,515,835
Impairment	<b>(110,042)</b>	(79,396)
Net carrying amount	<b><u>2,808,513</u></b>	<b><u>2,436,439</u></b>

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

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

Included in the Group's trade receivables are amounts due from the Group's associates of RMB108,664,000 (2022: RMB242,815,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2023, the Group's trade receivables with a carrying value of RMB1,181,567,000 (2022: RMB911,844,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	<b>531,465</b>	479,263
4 to 6 months	<b>388,458</b>	291,946
7 to 12 months	<b>460,962</b>	597,215
Over 12 months	<b><u>1,427,628</u></b>	<u>1,068,015</u>
Total	<b><u>2,808,513</u></b>	<b><u>2,436,439</u></b>

## 11. TRADE RECEIVABLES (continued)

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

	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
At beginning of the year	<b>79,396</b>	44,402
Impairment losses, net ( <i>note 6</i> )	<b>30,646</b>	36,080
Amount written off as uncollectible	–	(1,086)
	<hr/>	<hr/>
At end of the year	<b>110,042</b>	79,396
	<hr/> <hr/>	<hr/> <hr/>

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

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

### As at 31 December 2023

	Within 3 months	4 to 6 months	7 to 12 months	Over 12 months	Total
Expected credit loss rate	0.69%	0.91%	1.36%	6.33%	3.77%
Gross carrying amount (RMB'000)	535,163	392,008	467,319	1,524,065	2,918,555
Expected credit losses (RMB'000)	3,698	3,550	6,358	96,436	110,042

### As at 31 December 2022

	Within 3 months	4 to 6 months	7 to 12 months	Over 12 months	Total
Expected credit loss rate	0.61%	0.96%	1.30%	5.80%	3.16%
Gross carrying amount (RMB'000)	482,209	294,770	605,086	1,133,770	2,515,835
Expected credit losses (RMB'000)	2,946	2,824	7,871	65,755	79,396

## 12. TRADE AND BILLS PAYABLES

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Bills payable ( <i>note (a)</i> )	102,928	161,364
TOT payables ( <i>note (b)</i> )	3,985	3,985
Trade payables	<u>1,906,620</u>	<u>2,094,931</u>
Total	<u><u>2,013,533</u></u>	<u><u>2,260,280</u></u>
Less: Non-current portion	<u>201</u>	<u>59</u>
Current portion	<u><u>2,013,332</u></u>	<u><u>2,260,221</u></u>

*Notes:*

- (a) As at 31 December 2023, the Group's bills payable were secured by the pledged deposits amounting to RMB94,061,000 (2022: RMB136,742,000).
- (b) TOT payables represented amounts due to the Grantors based on the payment schedules set out in the relevant TOT contracts at the end of the year.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	370,571	629,083
4 to 6 months	141,980	255,423
7 to 12 months	211,017	296,107
Over 12 months	<u>1,289,965</u>	<u>1,079,667</u>
Total	<u><u>2,013,533</u></u>	<u><u>2,260,280</u></u>

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

Included in the Group's trade and bills payables are amounts due to the Group's associate of RMB10,120,000 (2022: RMB10,120,000).

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

	31 December 2023			31 December 2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities	4.21-4.91	2024	1,113	4.91	2023	271
Bank loans — secured	3.00-4.35	2024	388,797	3.45-4.35	2023	322,906
Bank loans — unsecured	2.60-6.96	2024	1,300,100	3.45-7.08	2023	1,405,123
Current portion of long term bank loans — secured	3.47-8.84	2024	1,017,333	3.47-8.02	2023	568,242
Current portion of long term bank loans — unsecured	1.20-5.50	2024	68,462	5.00-5.30	2023	71,188
Current portion of long term other loans — secured	4.84-7.14	2024	634,120	4.84-7.14	2023	491,157
Current portion of long term other loans — unsecured	7.50-8.43	2024	91,550	7.80-8.43	2023	20,922
Total — current			<u>3,501,475</u>			<u>2,879,809</u>
Non-current						
Lease liabilities	4.21-4.91	2025-2039	1,503	4.91	2024-2039	1,703
Long term bank loans — secured	3.47-5.30	2025-2045	3,213,752	3.47-6.50	2024-2045	3,946,288
Long term bank loans — unsecured	1.20-5.50	2025-2026	540,935	1.20-5.00	2024-2026	67,163
Long term other loans — secured	4.84-7.14	2025-2030	1,788,617	4.84-7.14	2024-2030	1,799,800
Long term other loans — unsecured	7.50-8.43	2025-2026	870,753	7.80-8.43	2024-2026	827,054
Total — non-current			<u>6,415,560</u>			<u>6,642,008</u>
Total			<u><u>9,917,035</u></u>			<u><u>9,521,817</u></u>
Interest-bearing bank and other borrowings denominated in						
— RMB			9,787,315			9,274,240
— United States dollars			<u>129,720</u>			<u>247,577</u>
Total			<u><u>9,917,035</u></u>			<u><u>9,521,817</u></u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	3,501,475	2,879,809
In the second year	1,978,297	2,176,609
In the third to fifth years, inclusive	2,391,240	2,022,997
Beyond five years	2,046,023	2,442,402
	<u>9,917,035</u>	<u>9,521,817</u>
Total	<u>9,917,035</u>	<u>9,521,817</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Property, plant and equipment	9,965	11,792
Investment properties	571	–
Financial receivables ( <i>note 9</i> )	7,957,461	7,114,919
Trade receivables ( <i>note 11</i> )	1,181,567	911,844
Pledged deposits	21,358	20,400
Service concession intangible assets	1,254,846	1,258,955
Contract assets ( <i>note 10</i> )	12,590	220,770

The Group's interest-bearing bank and other borrowings of RMB3,827,272,000 (2022: RMB4,134,215,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB474,365,000 (2022: RMB563,033,000) were guaranteed by the second largest shareholder.

### 14. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2023.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the year ended 31 December 2023 (the “Reporting Period”), the Group’s principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the operation and maintenance of wastewater treatment facilities entrusted by governments (the “O&M”). The Group’s business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the “PPP”), Build-Own-Operate (the “BOO”), Engineering-Procurement-Construction (the “EPC”) and O&M. The Group had 103 service concession arrangement projects under operation while its operational treatment capacity was over 4 million tons per day as at 31 December 2023.

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

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

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

## 1.1 Urban Water Treatment

As at 31 December 2023, the Group had entered into a total of 112 service concession arrangements projects, including 106 wastewater treatment plants, 1 water distribution plant, 3 sludge treatment plants and 2 reclaimed water treatment plants. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

Analysis of the Group's projects on hand as at 31 December 2023 is as follows:

	<b>Daily wastewater treatment capacity</b>	<b>Daily water distribution capacity</b>	<b>Daily reclaimed water treatment capacity</b>	<b>Daily sludge treatment capacity</b>	<b>Total</b>
<i>(Tonnes)</i>					
In operation	4,024,500	–	65,000	550	4,090,050
Not yet start operation/ Not yet transferred	240,500	30,000	–	–	270,500
<b>Total</b>	<b>4,265,000</b>	<b>30,000</b>	<b>65,000</b>	<b>550</b>	<b>4,360,550</b>
<i>(Number of projects)</i>					
In operation	98	–	2	3	103
Not yet start operation/ Not yet transferred	8	1	–	–	9
<b>Total</b>	<b>106</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>112</b>

	<b>Number of projects</b>	<b>Treatment capacity (Tonnes/Day)</b>	<b>Actual processing volume during the year ended 31 December 2023 (Million Tonnes)</b>
<b>Wastewater treatment services</b>			
Shandong	47	1,270,000	357.5
Henan	23	1,060,000	342.5
Heilongjiang	6	425,000	134.3
Shanxi	2	350,000	109.3
Zhejiang	2	250,000	88.2
Guangdong	4	220,000	65.3
Anhui	3	175,000	58.9
Jiangsu	5	100,000	34.8
Other provinces/municipalities*	14	415,000	70.3
	106	4,265,000	1,261.1
<b>Water distribution services</b>	1	30,000	–
<b>Reclaimed water treatment services</b>	2	65,000	4.6
<b>Total</b>	<b>109</b>	<b>4,360,000</b>	<b>1,265.7</b>
<b>Sludge treatment services</b>	3	550	–
<b>Total</b>	<b>112</b>	<b>4,360,550</b>	<b>1,265.7</b>

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

### *1.1.1 Operation Services*

As at 31 December 2023, the Group had 98 wastewater treatment projects, 2 reclaimed water treatment projects and 3 sludge treatment projects in operation in Chinese Mainland. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plants, and sludge treatment plants in operation for the year ended 31 December 2023 reached 4,024,500 tonnes (2022: 3,989,500 tonnes), 65,000 tonnes (2022: 65,000 tonnes), and 550 tonnes (2022: 550 tonnes), respectively. For the year ended 31 December 2023, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85% (2022: 82%). The actual average water treatment tariff for the year ended 31 December 2023 was approximately RMB1.59 per tonne (2022: approximately RMB1.56 per tonne). The actual aggregate processing volume for the year ended 31 December 2023 was 1,265.7 million tonnes, representing a minor increase of 3% as compared to the same period last year (year ended 31 December 2022: 1,226.6 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2023 was RMB1,265.3 million, representing a minor increase of approximately 2% as compared to the same period of last year (year ended 31 December 2022: RMB1,243.3 million). The corresponding increase was primarily due to the increase in the daily wastewater treatment capacity, and the increased operation numbers of upgrade projects.

### *1.1.2 Construction Services*

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

For the year ended 31 December 2023, construction revenue was recognised for 28 projects, including 24 wastewater treatment plants, 1 water distribution plant, 1 reclaimed water treatment plant, and 2 sludge treatment plants, which were mainly located in Shandong, Henan provinces and Tianjin city in Chinese Mainland. Total construction revenue of those projects for the year ended 31 December 2023 was RMB121.0 million, representing a year-on-year decrease of approximately 84% (year ended 31 December 2022: RMB753.0 million). The corresponding decrease was primarily due to a decrease in the project numbers during the main construction period. As at 31 December 2023, the total daily treatment capacity of the service concession arrangements plants, which were still in the construction stage, was 100,500 tonnes, including 70,500 tonnes of wastewater treatment plants and 30,000 tonnes of water distribution plant.

## **1.2 Water Environment Comprehensive Remediation**

In the year of 2023, the Group continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 31 December 2023, most of the projects have been completed. The Group devoted efforts to lower the risk and enhance the reasonable profit for the existing projects. The Group will integrate resources to execute the Water Environment Comprehensive Remediation projects under the contracts of EPC and O&M.

The Group had 5 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2023. The projects were mainly located in Jiangxi province in Chinese Mainland. For the year ended 31 December 2023, total revenue of those projects was RMB43.4 million, representing a decrease of approximately 62% as compared to the same period last year (year ended 31 December 2022: RMB114.4 million). The corresponding decrease was primarily due to the completion of most existing EPC projects.

## **1.3 Rural Water Improvement**

The Group had 2 Rural Water Improvement projects during the year ended 31 December 2023. The projects were located in Guangdong province in Chinese Mainland. For the year ended 31 December 2023, total revenue of those projects was RMB49.9 million, representing a year-on-year decrease of approximately 16% (year ended 31 December 2022: RMB59.1 million). The corresponding decrease was primarily due to net impact of the decrease in the construction revenue and the increased operation revenue due to the commenced operation of these two projects.

## **FINANCIAL ANALYSIS**

### **Revenue**

For the year ended 31 December 2023, the Group recorded a revenue of RMB2,216.4 million, representing a decrease of RMB680.2 million as compared to the previous corresponding period of RMB2,896.6 million. The decrease was mainly due to the decrease in construction revenue of RMB719.6 million, the increase in operation revenue of RMB28.5 million, and the increase in financial income from service concession arrangements of RMB10.9 million. The decrease in construction revenue was mainly due to the decrease in the number of projects during the main construction period of Urban Water Treatment services, the completion of most existing EPC projects of Water Environment Comprehensive Remediation services, and commenced operation of PPP projects of Rural Water Improvement services. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income from service concession arrangements was mainly due to the increase in the financial assets.

### **Cost of Sales**

The Group's cost of sales for the year ended 31 December 2023 amounted to RMB1,140.4 million, including construction costs of RMB206.5 million and operation costs of water treatment plants of RMB933.9 million, representing a decrease of approximately 30% as compared to the previous corresponding period of RMB1,627.9 million. The decrease was due to the decrease in construction cost of RMB551.5 million and the increase of in operation costs of RMB64.0 million. The decrease in construction costs was mainly due to the decrease in the construction work of existing upgrade and expansion projects which was in line with the decrease in construction revenue. The increase in operation cost was mainly due to the increased operation numbers of upgrade projects, and the increases in costs of wastewater treatment chemicals, etc.

### **Gross Profit Margin**

For the year ended 31 December 2023, the Group's gross profit margin was approximately 49%, representing an increase of 5 percentage points as compared to the previous corresponding period of approximately 44%. The increase was primarily due to the decrease in the proportion of construction revenue this period.

## **Other Income and Gains**

The Group recorded other income and gains of RMB59.8 million for the year ended 31 December 2023, representing an increase of approximately 11% as compared to the previous corresponding period of RMB53.9 million. The amount for the Reporting Period primarily included government grants of RMB20.2 million, which mainly comprised of VAT refund under “Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (Cai Shui [2015] No. 78)”\* (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知(財稅[2015]78號文)) and grants for environmental protection, bank interest income of RMB2.5 million, interest income of RMB21.8 million from loans to a third party, a joint venture, and an associate, and dividend income of RMB9.6 million.

## **Administrative Expenses**

The Group’s administrative expenses for the year ended 31 December 2023 was RMB283.1 million, representing an increase of approximately 3% as compared to the previous corresponding period of RMB274.1 million. The increase was mainly due to the increase in professional fees.

## **Other Expenses**

Other expenses for the year ended 31 December 2023 was RMB43.4 million, representing a decrease of approximately 59% as compared to the previous corresponding period of RMB105.9 million. The decrease was mainly due to the decrease in foreign exchange losses, non-operating expenses, and impairment losses which was partially offset by the increase of losses on disposal of an associate recognised in the Reporting Period.

## **Finance Costs**

The Group’s finance costs for the year ended 31 December 2023 of RMB578.7 million mainly comprised interests on interest-bearing bank and other borrowings, representing an increase of approximately 2% as compared to the previous corresponding period of RMB566.2 million. The increase in finance costs was mainly due to the increase the average balance of interest-bearing bank and other borrowings. The average balance of interest-bearing bank and other borrowings increased by RMB223.6 million and the average interest rate was 5.95%, representing a slight decrease as compared to the previous corresponding period of 5.96%.

\* For identification purposes only

## Share of Profits and Losses of Associates

The Group's share of profits of associates for the year ended 31 December 2023 was RMB4.7 million, representing a major increase as compared to share of profits of associates of RMB2.6 million in the previous corresponding period. The Group will further execute practical ways to reduce the losses brought by the associates.

## Share of Profits and Losses of Joint ventures

Share of losses of joint ventures for the year ended 31 December 2023 was RMB0.3 million, representing a major decrease as compared to share of losses of joint ventures of RMB3.6 million in the previous corresponding period. The Group will further execute practical ways to reduce the losses brought by the joint ventures.

## Income Tax Expense

Income tax expense for the year ended 31 December 2023 included the current PRC income tax of RMB44.7 million and deferred tax expenses of RMB59.0 million, which were RMB36.9 million and RMB97.5 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2023 was approximately 44%, representing an increase of 8 percentage points as compared with approximately 36% for the previous corresponding period, which was mainly due to the increase in effect of tax losses not recognised in the Reporting Period and the decrease in effect of lower tax rates for specific provinces or enacted by local authority.

## Financial Receivables

	As at	
	31 December 2023	31 December 2022
	RMB'000	RMB'000
Receivables for service concession arrangements	11,592,250	11,206,485
Portion classified as current	(2,079,291)	(1,961,955)
Non-current portion	<u>9,512,959</u>	<u>9,244,530</u>

As at 31 December 2023, the Group's financial receivables of RMB11,592.3 million (31 December 2022: RMB11,206.5 million) increased by RMB385.8 million, which was mainly due to the increase in financial receivables which were reclassified from contract assets once the construction and upgrade period is ended for the water treatment projects.

## Contract Assets

	As at	
	31 December 2023 RMB'000	31 December 2022 RMB'000
Contract assets	1,254,996	1,706,946
Portion classified as current	<u>(77,629)</u>	<u>(198,553)</u>
Non-current portion	<u>1,177,367</u>	<u>1,508,393</u>

As at 31 December 2023, the Group's contract assets of RMB1,255.0 million (31 December 2022: RMB1,706.9 million), decreased by RMB451.9 million, mainly due to the net impact of reclassification from contract assets to financial receivables and the increase of construction of the Group's projects under BOT, PPP, and EPC contracts.

## Trade Receivables

As at 31 December 2023, the Group's trade receivables of RMB2,808.5 million (31 December 2022: RMB2,436.4 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB372.1 million, mainly due to (i) the increase in Urban Water Treatment projects receivables of approximately RMB573.4 million, (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB177.8 million, which included EPC project receivables of approximately RMB45.0 million arising from the progress billing and cash collected from EPC projects of approximately RMB222.8 million, and (iii) the increase in Rural Water Improvement projects receivables of approximately RMB7.2 million.

## Prepayments, Other Receivables and Other Assets

As at 31 December 2023, the Group's prepayments, other receivables and other assets of RMB929.0 million (31 December 2022: RMB748.1 million) increased by RMB180.9 million, mainly arising from the increase in receivables of disposal an associate of approximately RMB144.9 million, the increase in deductible input VAT of approximately RMB29.9 million, the increase in loans to an associate of RMB11.8 million, the increase in other operational receivables and staff advances of approximately RMB17.1 million, the decrease in loans to a third party of RMB16.5 million, and the decrease in prepayments and deposits of approximately RMB3.7 million related to the construction of wastewater treatment plants.

## Cash and Cash Equivalents

As at 31 December 2023, the Group's cash and cash equivalents of RMB248.4 million (31 December 2022: RMB196.9 million) increased by RMB51.5 million as compared with that as at the end of previous corresponding period. The increase was due to the decrease in cash outflows in financing activities of the Group.

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Net cash flows from operating activities <sup>(1)</sup>	292,922	368,409
Net cash flows from investing activities	12,804	101,982
Net cash flows used in financing activities	(257,108)	(563,029)
Net increase / (decrease) in cash and cash equivalents	48,618	(92,638)
Effect of foreign exchange rate changes	2,804	(322)
Cash and cash equivalents at beginning of the period	196,938	289,898
Cash and cash equivalents at end of the period	248,360	196,938

Note:

- (1) For the year ended 31 December 2023 and 2022, the Group invested RMB258.4 million and RMB311.0 million, respectively, in the Group's BOT/TOT and PPP projects. Such investments were accounted for as cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's consolidated statement of financial position. For the year ended 31 December 2023 and 2022, the Group would have incurred cash inflows of RMB551.3 million and RMB679.4 million, respectively, if the Group's investments in BOT/TOT and PPP activities were not accounted for as cashflows used in operating activities.

## Trade and Bills Payables

As at 31 December 2023, the Group's trade and bills payables of RMB2,013.5 million (31 December 2022: RMB2,260.2 million) decreased by RMB246.7 million, which was in line with the execution of the Group's construction work in progress and the settlements.

## **Other Payables and Accruals**

As at 31 December 2023, the Group's other payables and accruals of RMB207.9 million (31 December 2022: RMB288.1 million), decreased by RMB80.2 million, which was mainly due to the decrease in amounts due to an associate, decrease in salary and welfare payables and the settlement of acquisition payables.

## **Liquidity and Financial Resources**

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

As at 31 December 2023, the carrying amount of the Group's cash and cash equivalents was RMB248.4 million, representing an increase of approximately RMB51.5 million as compared to RMB196.9 million as at 31 December 2022, which was mainly due to the net cash inflows of RMB292.9 million from operating activities, the net cash outflows used in financing activities of RMB257.1 million, cash outflows of RMB61.1 million for purchases of property, plant and equipment and intangible assets in investing activities, cash inflows of RMB57.8 million for decrease in pledged deposits, the net cash inflows of RMB5.3 million for decrease in loans to a third party and increase in loans to an associate, cash inflows of RMB10.2 million for dividend collected from an associate and an equity investment company, repurchase of other current financial assets of RMB0.1million, and cash inflows of RMB0.5 million for disposal of property, plant and equipment and intangible assets from investing activities.

As at 31 December 2023, the Group's total interest-bearing debts increased to RMB9,917.0 million (31 December 2022: RMB9,521.8 million), which comprised of bank and other borrowings only. As at 31 December 2023, 64.7% (31 December 2022: 69.8%) of the Group's interest-bearing debts are long term; over 71% of interest-bearing bank and other borrowings bear interest at floating rates.

As at 31 December 2023, the Group had banking facilities amounting to RMB57,646.3 million, of which RMB49,602.0 million have not been utilized. The unutilized amount of RMB49,402.0 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 31 December 2023, the gearing ratio of the Group (calculated by total liabilities divided by total assets) slightly decreased to 69.6%, while the gearing ratio was 69.7% as at the corresponding period last year.

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

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2023 was approximately RMB9,917.0 million, which were repayable within one month to twenty-two years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, investment properties, trade receivables, contract assets and pledged deposits of which the total amounts of the pledge of assets amounted to RMB10,438.4 million.

## **Capital Expenditure**

During the year ended 31 December 2023, the Group's total capital expenditure were RMB127.1 million, compared to RMB512.7 million in 2022, primarily including the consideration of approximately RMB112.8 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB13.6 million for acquisition of non-controlling interests in subsidiaries.

## **EMPLOYEES AND REMUNERATION POLICIES**

The Group had 2,296 employees as at 31 December 2023. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

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

## **CONTINGENT LIABILITIES**

As at 31 December 2023, the Group did not have any significant contingent liabilities (31 December 2022: Nil).

## **FOREIGN EXCHANGE RISK**

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2023, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

## **EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed, no significant events took place subsequent to 31 December 2023.

## **PROPOSED FINAL DIVIDEND**

The Board did not recommend payment of the final dividend for the year ended 31 December 2023 (year ended 31 December 2022: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The transfer books and register of members of the Company will be closed from Friday, 31 May 2024 to Wednesday, 5 June 2024, both days inclusive, during which period no transfer of the share(s) of the Company (the “Shares”) can be registered. The record date for entitlement to attend and vote at the forthcoming annual general meeting of the Company (the “Annual General Meeting”) is Wednesday, 5 June 2024. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2024.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company’s total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”), are held by the public at all times during the year ended 31 December 2023 and up to the date of this announcement.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. During the year ended 31 December 2023, the Company has complied with all the applicable provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix C1 to the Listing Rules.

## **AUDIT COMMITTEE**

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

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting process, internal control and risk management systems, oversee the audit process, monitor, review and assist in the research of the Company’s environmental, social and governance matters, and perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2023 and discussed matters with respect to the accounting policies and practices adopted by the Company and internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

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

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Company’s auditor, Ernst & Young, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2023.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2023.

**PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2023  
ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK  
EXCHANGE AND THE COMPANY**

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2023 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

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

Hong Kong, 28 March 2024

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