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KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

HIGHLIGHTS

- Revenue was approximately RMB3,332.4 million, and gross profit was approximately RMB1,325.6 million for the year ended 31 December 2020.
- Profit attributable to owners of the parent was approximately RMB470.5 million, representing an increase of approximately 25% as compared to the previous corresponding period.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year were RMB22.39 cents.
- For the year ended 31 December 2020, the actual aggregate processing volume reached 1,133.6 million tonnes.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2020.

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 2020 together with the comparative figures for the year ended 31 December 2019 as follows:

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

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
REVENUE	3	3,332,432	2,815,203
Cost of sales		<u>(2,006,795)</u>	<u>(1,652,600)</u>
Gross profit		1,325,637	1,162,603
Other income and gains	4	107,157	182,028
Selling and distribution expenses		(2,530)	(4,958)
Administrative expenses		(217,593)	(243,769)
Other expenses		(35,902)	(30,354)
Finance costs	5	(561,781)	(557,541)
Share of profits and losses of:			
Associates		(2,688)	1,401
Joint ventures		<u>(4,761)</u>	<u>431</u>
PROFIT BEFORE TAX	6	607,539	509,841
Income tax expense	7	<u>(137,282)</u>	<u>(125,770)</u>
PROFIT FOR THE YEAR		<u>470,257</u>	<u>384,071</u>
Attributable to:			
Owners of the parent	8	470,488	376,868
Non-controlling interests		<u>(231)</u>	<u>7,203</u>
		<u>470,257</u>	<u>384,071</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic for profit for the year (expressed in RMB per share)	8	<u>22.39 cents</u>	<u>18.54 cents</u>
Diluted for profit for the year (expressed in RMB per share)	8	<u>22.39 cents</u>	<u>18.54 cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (continued)**
Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
OTHER COMPREHENSIVE INCOME			
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		(25,000)	(126,000)
Income tax effect		3,750	18,900
		<u>(21,250)</u>	<u>(107,100)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>(21,250)</u>	<u>(107,100)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
		<u>(21,250)</u>	<u>(107,100)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
		<u>449,007</u>	<u>276,971</u>
Attributable to:			
Owners of the parent		449,238	269,768
Non-controlling interests		(231)	7,203
		<u>449,007</u>	<u>276,971</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		119,472	134,672
Investment properties		12,970	9,827
Right-of-use assets		1,887	3,261
Investments in associates		375,239	378,243
Investments in joint ventures		84,159	88,920
Equity investments designated at fair value through other comprehensive income		338,000	363,000
Service concession intangible assets		1,133,188	802,417
Other intangible assets		3,436	3,268
Goodwill		60,219	60,219
Financial receivables	9	8,313,899	7,513,981
Deferred tax assets		81,036	90,629
Prepayments, other receivables and other assets		173,457	231,502
Contract assets	10	2,074,910	2,027,135
Total non-current assets		<u>12,771,872</u>	<u>11,707,074</u>
CURRENT ASSETS			
Inventories		14,834	13,530
Contract assets	10	222,337	222,236
Financial receivables	9	1,692,798	1,643,994
Trade and bills receivables	11	1,527,023	1,363,602
Prepayments, other receivables and other assets		617,705	608,392
Pledged deposits		215,550	163,167
Cash and cash equivalents		430,262	225,672
Other current financial assets		153,449	750,824
Total current assets		<u>4,873,958</u>	<u>4,991,417</u>
CURRENT LIABILITIES			
Trade and bills payables	12	2,058,172	1,779,354
Other payables and accruals		217,116	342,121
Deferred income		1,260	–
Interest-bearing bank and other borrowings	13	1,934,372	3,222,399
Corporate bonds	14	327,262	907,423
Tax payable		41,955	30,829
Total current liabilities		<u>4,580,137</u>	<u>6,282,126</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>293,821</u>	<u>(1,290,709)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>13,065,693</u>	<u>10,416,365</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*31 December 2020*

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Trade payables	<i>12</i>	1,756	3,624
Interest-bearing bank and other borrowings	<i>13</i>	6,754,171	4,410,206
Corporate bonds	<i>14</i>	256,985	569,366
Deferred income		1,260	–
Other payables and accruals		23,063	18,447
Deferred tax liabilities		910,260	820,570
		<hr/>	<hr/>
Total non-current liabilities		7,947,495	5,822,213
		<hr/> <hr/>	<hr/> <hr/>
Net assets		5,118,198	4,594,152
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		17,125	16,143
Reserves		4,901,605	4,378,959
		<hr/>	<hr/>
		4,918,730	4,395,102
		<hr/> <hr/>	<hr/> <hr/>
Non-controlling interests		199,468	199,050
		<hr/> <hr/>	<hr/> <hr/>
Total equity		5,118,198	4,594,152
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

The financial statements have been prepared under the historical cost convention, except for equity investments designed at fair value through other comprehensive income which have been measured at fair value. These consolidated 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 2020. 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).

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

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

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

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's consolidated financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

Conceptual Framework for Financial Reporting 2018

Conceptual Framework for Financial Reporting 2018 (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

Amendments to IFRS 3: Definition of a Business

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendment to IFRS 16: Covid-19-Related Rent Concessions (early adopted)

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office properties have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

Amendments to IAS 1 and IAS 8: Definition of Material

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of 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, 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.

2. OPERATING SEGMENT INFORMATION (continued)

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, and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

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

2. OPERATING SEGMENT INFORMATION (continued)

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

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

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	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>
Segment revenue				
Sales to external customers	2,536,642	203,884	74,677	2,815,203
	2,536,642	203,884	74,677	2,815,203
Segment results	672,498	101,750	13,345	787,593
<i>Reconciliation:</i>				
Unallocated income and gains				88,769
Share of profits and losses of unallocated associates				102
Share of profit and loss of an unallocated joint venture				44
Corporate and other unallocated expenses				(75,386)
Unallocated lease-related finance costs				(312)
Unallocated finance costs (other than interest on lease liabilities)				(290,969)
Profit before tax				<u>509,841</u>
Segment assets	12,986,436	1,401,913	653,280	15,041,629
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>1,656,862</u>
Total assets				<u>16,698,491</u>
Segment liabilities	9,383,169	567,000	542,412	10,492,581
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>1,611,758</u>
Total liabilities				<u>12,104,339</u>

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	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>
Other segment information				
Investments in associates	–	232,200	–	232,200
Unallocated investments in associates				146,043
Investment in a joint venture	75,112	–	–	75,112
Unallocated investment in a joint venture				13,808
Share of profits and losses of associates	–	1,299	–	1,299
Share of profits and losses of unallocated associates				102
Loss on disposal of a joint venture	–	(7,414)	–	(7,414)
Share of profits and losses of joint ventures	(1,372)	1,759	–	387
Share of profit and loss of an unallocated joint venture				44
Impairment losses recognised in the consolidated statement of profit or loss and other comprehensive income, net	(31)	(5,520)	–	(5,551)
Depreciation and amortisation	51,765	124	61	51,950
Unallocated depreciation and amortisation				<u>7,847</u>
Total depreciation and amortisation				<u><u>59,797</u></u>
Capital expenditure	284,262	43	75,190	359,495
Unallocated amounts				<u>57</u>
Total capital expenditure*				<u><u>359,552</u></u>

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

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	<u>3,332,432</u>	<u>2,815,203</u>

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

(b) Non-current assets

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	<u>12,690,836</u>	<u>11,616,445</u>

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

Information about major customers

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

Year ended 31 December 2020

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

Year ended 31 December 2019

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer A	259,106	259,106
Customer B	<u>225,022</u>	<u>225,022</u>
	<u>484,128</u>	<u>484,128</u>

3. REVENUE

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

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

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

Revenue from contracts with customers

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from construction services	1,613,074	1,312,915
Revenue from operating services	1,046,264	894,002
Revenue from sales of water purifying materials	12,045	–
Financial income	661,049	608,286
	<u>3,332,432</u>	<u>2,815,203</u>

3. REVENUE (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information

For the year ended 31 December 2020

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

For the year ended 31 December 2019

Segments	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Revenue from contracts with customers	<u>2,536,642</u>	<u>203,884</u>	<u>74,677</u>	<u>2,815,203</u>
Geographical market				
Mainland China	<u>2,536,642</u>	<u>203,884</u>	<u>74,677</u>	<u>2,815,203</u>
Total revenue from contracts with customers	<u>2,536,642</u>	<u>203,884</u>	<u>74,677</u>	<u>2,815,203</u>

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

(b) Performance obligations

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

4. OTHER INCOME AND GAINS

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants*	49,958	75,120
Investment income from other current financial assets	26,246	62,910
Interest income from loans to third parties	18,099	20,658
Foreign exchange differences, net	5,557	–
Bank interest income	4,665	4,204
Interest income from loans to an associate and joint ventures	820	6,914
Rental income less depreciation of investment properties	536	508
Dividend income from equity investments designated at fair value through other comprehensive income	–	9,143
Others	1,276	2,571
	<u>107,157</u>	<u>182,028</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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on interest-bearing bank and other borrowings	484,890	431,518
Interest on corporate bonds	76,654	125,711
Interest on lease liabilities	237	312
	<u>561,781</u>	<u>557,541</u>

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
Cost for construction services		1,333,485	1,046,610
Cost for operation services		662,144	605,990
Cost for sales of water purifying materials		11,166	–
		<hr/> 2,006,795 <hr/>	<hr/> 1,652,600 <hr/>
Total cost of services			
Depreciation of property, plant and equipment		10,471	10,897
Depreciation of right-of-use assets		1,932	3,126
Amortisation of service concession intangible assets		57,870	44,757
Amortisation of other intangible assets		501	315
Loss allowance for impairment of financial receivables		1,801	–
Loss allowance for impairment of contract assets		403	–
Loss allowance for impairment of trade receivables	<i>11</i>	22,459	3,493
Loss allowance for impairment of other receivables		7,875	2,058
Lease payments not included in the measurement of lease liabilities		409	1,582
Auditor's remuneration		2,850	3,000
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		229,278	222,176
Pension scheme contributions (defined contribution scheme)		5,992	20,197
Equity-settled share option expenses		–	9,158
		<hr/> 235,270 <hr/>	<hr/> 251,531 <hr/>
Total employee benefit expense			
Operating lease income		(1,469)	(1,210)
Less: Depreciation of investment properties		933	702
		<hr/> (536) <hr/>	<hr/> (508) <hr/>
Rental income less depreciation of investment properties	<i>4</i>		
Bank interest income	<i>4</i>	(4,665)	(4,204)
Government grants	<i>4</i>	(49,958)	(75,120)
Interest income from loans to third parties	<i>4</i>	(18,099)	(20,658)
Interest income from loans to an associate and joint ventures	<i>4</i>	(820)	(6,914)
Investment income from other current financial assets	<i>4</i>	(26,246)	(62,910)
Loss on disposal of items of property, plant and equipment, net		11	185
Loss on disposal of subsidiaries		708	13,691
Loss on disposal of a joint venture		–	7,414
Foreign exchange differences, net	<i>4</i>	(5,557)	1,222

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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current		
— Mainland China	34,249	41,227
Deferred	103,033	84,543
	<u>137,282</u>	<u>125,770</u>
Total tax charge for the year	<u>137,282</u>	<u>125,770</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 2,100,877,000 (2019: 2,032,385,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	470,488	376,868
	<u>470,488</u>	<u>376,868</u>
	2020 <i>Number of shares</i>	2019 <i>Number of shares</i>
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,100,877,000	2,032,385,000
	<u>2,100,877,000</u>	<u>2,032,385,000</u>
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	589,000
	<u>—</u>	<u>589,000</u>
	<u>2,100,877,000</u>	<u>2,032,974,000</u>

9. FINANCIAL RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Receivables for service concession arrangements	10,006,697	9,157,975
Portion classified as current assets	(1,692,798)	(1,643,994)
Non-current portion	<u>8,313,899</u>	<u>7,513,981</u>

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

Financial receivables were unbilled receivables, mainly due from governmental authorities in Mainland China, as the Grantors in respect of the Group's service concession arrangements. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2020, the Group's financial receivables with a carrying value of RMB7,168,543,000 (2019: RMB5,632,127,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

10. CONTRACT ASSETS

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Contract assets arising from:		
Construction services	2,297,650	2,249,371
Impairment	(403)	–
	<u>2,297,247</u>	<u>2,249,371</u>
Proportion classified as current assets	<u>(222,337)</u>	<u>(222,236)</u>
Non-current portion	<u>2,074,910</u>	<u>2,027,135</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 trade receivables or financial receivables. The increase in contract assets in 2020 was mainly due to the increase of construction services.

During the year ended 31 December 2020, RMB403,000 (2019: Nil) was recognised as an allowance for expected credit losses on contract assets.

At 31 December 2020, the Group's contract assets with a carrying value of RMB552,464,000 (2019: RMB966,725,000) 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 RMB4,413,000, which are repayable on credit terms similar to those offered to the major customers of the Group.

11. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	1,555,762	1,369,867
Bills receivable	627	1,000
Impairment	(29,366)	(7,265)
	<u>1,527,023</u>	<u>1,363,602</u>

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

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

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of nil (2019: nil) and RMB225,254,000 (2019: RMB269,328,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2020, the Group's trade receivables with a carrying value of RMB748,253,000 (2019: RMB564,642,000) 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	432,308	502,100
4 to 6 months	245,572	131,001
7 to 12 months	287,593	149,550
Over 12 months	560,923	579,951
	<u>1,526,396</u>	<u>1,362,602</u>

11. TRADE AND BILLS RECEIVABLES (continued)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of the year	7,265	3,772
Impairment losses	22,459	3,493
Amount written off as uncollectible	(358)	–
	<u>29,366</u>	<u>7,265</u>

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

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

As at 31 December 2020

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

12. TRADE AND BILLS PAYABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bills payable (note (a))	177,334	134,745
TOT payables (note (b))	3,985	3,985
Trade payables	<u>1,878,609</u>	<u>1,644,248</u>
	<u>2,059,928</u>	<u>1,782,978</u>
Less: Non-current portion	<u>1,756</u>	<u>3,624</u>
Current portion	<u>2,058,172</u>	<u>1,779,354</u>

12. TRADE AND BILLS PAYABLES (continued)

Notes:

- (a) As at 31 December 2020, the Group's bills payable were secured by the pledged deposits amounting to RMB169,305,000 (2019: RMB122,713,000).
- (b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of the year.

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

	2020	2019
	RMB'000	RMB'000
Within 3 months	654,033	474,841
4 to 6 months	467,291	230,818
7 to 12 months	424,537	413,261
Over 12 months	514,067	664,058
	<u>2,059,928</u>	<u>1,782,978</u>

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities	4.91	2021	310	4.91	2020	1,988
Bank loans						
— unsecured	3.85–4.90	2021	38,043	4.87–8.00	2020	285,000
Bank loans						
— secured	4.35–6.72	2021	986,204	3.92–8.47	2020	1,964,975
Other loans						
— unsecured	–	–	–	4.15	2020	4,000
Current portion of long term other loans						
— secured	4.50–9.90	2021	302,533	5.78–9.90	2020	241,318
Current portion of long term bank loans						
— secured	3.75–6.18	2021	582,369	4.75–6.56	2020	725,118
Current portion of long term other loans						
— unsecured	4.20–7.80	2021	24,913	–	–	–
			<u>1,934,372</u>			<u>3,222,399</u>

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

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Non-current						
Lease liabilities	4.91	2022–2039	1,931	4.91	2021–2039	1,950
Long term other loans						
— unsecured	1.20–7.80	2022–2026	595,000	1.20–7.50	2021–2026	236,105
Long term other loans						
— secured	2.80–9.90	2022–2026	1,141,220	2.80–9.90	2021–2026	887,959
Long term bank loans						
— secured	3.75–6.18	2022–2045	4,368,344	4.75–6.56	2021–2045	3,284,192
Long term bank loans						
— unsecured	4.55–4.99	2022–2023	647,676	–	–	–
			<u>6,754,171</u>			<u>4,410,206</u>
			<u>8,688,543</u>			<u>7,632,605</u>
Interest-bearing bank and other borrowings denominated in						
— RMB			8,313,318			7,564,099
— Hong Kong dollars			–			38,071
— United States dollars			375,225			30,435
			<u>8,688,543</u>			<u>7,632,605</u>
				2020	2019	
				RMB'000	RMB'000	
Analysed into:						
Interest-bearing bank and other borrowings repayable:						
Within one year				1,934,372	3,222,399	
In the second year				2,189,312	814,596	
In the third to fifth years, inclusive				1,928,371	1,994,739	
Beyond five years				2,636,488	1,600,871	
				<u>8,688,543</u>	<u>7,632,605</u>	

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Property, plant and equipment	15,447	17,274
Financial receivables (note 9)	7,168,543	5,632,127
Trade and bills receivables (note 11)	748,253	564,642
Pledged deposits	–	8,100
Service concession intangible assets	937,310	504,100
Contract assets (note 10)	552,464	966,725

The Group's interest-bearing bank and other borrowings of RMB2,164,284,000 (2019: RMB2,161,298,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB1,427,068,000 (2019: RMB1,967,485,000) were secured by the second largest shareholder.

14. CORPORATE BONDS

As at 31 December 2020, the carrying amount of bonds issued on 13 June 2018 by Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, was RMB311,287,000 with a maturity date on 13 June 2021 and an interest rate of 7.5% per annum.

On 10 August 2018, the Group received a net cash amount of RMB319,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 on the Shanghai Stock Exchange, bearing interest at the rate of 7.5% per annum. As at 31 December 2020, the carrying amount of the ABS was RMB272,960,000. According to the payment schedule, RMB15,975,000 will be payable within one year and classified to the short term corporate bonds.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Unsecured short term corporate bonds	327,262	907,423
Unsecured long term corporate bonds	256,985	569,366
	<u>584,247</u>	<u>1,476,789</u>

15. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2019, a wholly-owned subsidiary of China Water Affairs Group Limited (“China Water”) acquired approximately 29.52% of the entire issued share capital of the Company from Kangda Holdings Company Limited, and subsequently China Water became the single largest shareholder of the Group. The adjustment of the single largest shareholder also brought new opportunities and development to the Group. The Group integrated the resources and combined the divisions to maintain its focus on the environmental protection business in the future, which is primarily urban wastewater treatment.

The Group showed its progress in most of the aspects within two years after the adjustment of major shareholders.

At the beginning of 2020, the novel coronavirus (the “COVID-19”) pandemic broke out. Under the leadership of the Chinese government, the whole country was united to fight against the epidemic. In the second half of 2020, the domestic epidemic has been further effectively controlled. Facing the challenges posed by the epidemic, the Group has overcome the difficulties to work on the progress of projects under construction and the stable operation of operating projects in an orderly manner while actively implemented the deployment of epidemic prevention and control work of the government. In 2020, the performance of the Group has not been significantly affected by the COVID-19 pandemic, but has grown instead.

During the year ended 31 December 2020 (the “Reporting Period”), our 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 scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body treatment and sponge city construction. The Group engages in Water Environment Comprehensive Remediation by executing previously signed contracts of PPP and EPC.

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

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

1.1 Urban Water Treatment

As at 31 December 2020, the Group had entered into a total of 112 service concession arrangements projects, including 105 wastewater treatment plants, 2 water distribution plants, 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 2020 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
<i>(Tonnes)</i>					
In operation	3,766,500	–	65,000	550	3,832,050
Not yet start operation/ Not yet transferred	<u>495,000</u>	<u>180,000</u>	<u>–</u>	<u>–</u>	<u>675,000</u>
Total	<u>4,261,500</u>	<u>180,000</u>	<u>65,000</u>	<u>550</u>	<u>4,507,050</u>
<i>(Number of projects)</i>					
In operation	93	–	2	3	98
Not yet start operation/ Not yet transferred	<u>12</u>	<u>2</u>	<u>–</u>	<u>–</u>	<u>14</u>
Total	<u>105</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>112</u>

	Number of projects	Treatment capacity <i>(Tonnes/Day)</i>	Actual processing volume during the year ended 31 December 2020 <i>(Million Tonnes)</i>
Wastewater treatment services			
Shandong	45	1,244,500	317.3
Henan	23	1,060,000	329.9
Heilongjiang	6	425,000	146.9
Shanxi	2	350,000	51.7
Zhejiang	2	250,000	89.7
Guangdong	4	220,000	42.4
Anhui	3	175,000	46.5
Jiangsu	6	102,000	28.9
Other provinces/municipalities*	14	435,000	76.0
	105	4,261,500	1,129.3
Water distribution services	2	180,000	–
Reclaimed water treatment services	2	65,000	4.3
Total	109	4,506,500	1,133.6
Sludge treatment services	3	550	–
Total	112	4,507,050	1,133.6

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

1.1.1 Operation Services

As at 31 December 2020, the Group had 93 wastewater treatment projects, 2 reclaimed water treatment projects and 3 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plants, and sludge treatment plants in operation for the year ended 31 December 2020 reached 3,766,500 tonnes (2019: 3,461,500 tonnes), 65,000 tonnes (2019: 40,000 tonnes), and 550 tonnes (2019: 550 tonnes), respectively. For the year ended 31 December 2020, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 83% (2019: 83%). The actual average water treatment tariff for the year ended 31 December 2020 was approximately RMB1.46 per tonne (2019: approximately RMB1.47 per tonne). The actual aggregate processing volume for the year ended 31 December 2020 was 1,133.6 million tonnes, representing an increase of 10% as compared to the same period last year (year ended 31 December 2019: 1,027.5 million tonnes), which was in line with the increase in treatment capacity.

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2020 was RMB1,053.4 million, representing an increase of approximately 18% (year ended 31 December 2019: RMB894.0 million). The corresponding increase was primarily due to the increase of the number of commencement of operation of new water treatment projects through construction.

1.1.2 Construction Services

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

For the year ended 31 December 2020, construction revenue was recognised for 29 projects, including 23 wastewater treatment plants, 2 water distribution plants, 1 reclaimed water treatment plant, and 3 sludge treatment plants, which were mainly located in Shandong, Shanxi, and Heilongjiang provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2020 was RMB1,192.9 million, representing a year-on-year increase of approximately 15% (year ended 31 December 2019: RMB1,040.4 million). The corresponding increase was primarily due to the rapid implementation of new projects. As at 31 December 2020, the total daily treatment capacity of the service concession arrangements plants, which were still in the construction stage, was 515,000 tonnes, including 335,000 tonnes of wastewater treatment plants and 180,000 tonnes of water distribution plants.

1.2 Water Environment Comprehensive Remediation

In the year of 2019, the Group combined the divisions and continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 31 December 2020, the Group had entered into 2 PPP projects and 13 EPC projects in Henan, Jiangxi, Shandong and other provinces in Mainland China. The Group devoted efforts to lower the risk and enhance the reasonable profit. The Group will integrate resources to execute the Water Environment Comprehensive Remediation projects under the contracts of EPC and O&M.

The Group had 14 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2020. The projects were mainly located in Henan, Jiangxi, Shandong and other provinces in Mainland China. For the year ended 31 December 2020, total revenue of those projects was RMB311.7 million, representing a year-on-year increase of approximately 53% (year ended 31 December 2019: RMB203.9 million). The corresponding increase was primarily due to the increase in the construction work of existing EPC projects.

1.3 Rural Water Improvement

In the year of 2020, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou provinces in Mainland China. For the year ended 31 December 2020, total revenue of those projects was RMB121.2 million, representing a year-on-year increase of approximately 62% (year ended 31 December 2019: RMB74.7 million). The corresponding increase was primarily due to the increase in the construction work of existing projects.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2020, the Group recorded a revenue of RMB3,332.4 million, representing an increase of approximately 18% as compared to the previous corresponding period of RMB2,815.2 million. The increase was mainly due to the increase in construction revenue of RMB300.2 million, the increase in operation revenue of RMB164.3 million, and the increase in financial income of RMB52.7 million. The increase in construction revenue was mainly due to the rapid implementation of new projects of Urban Water Treatment services, the increase in the construction work of existing projects of Water Environment Comprehensive Remediation services and Rural Water Improvement services. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income was mainly due to the increase in the financial assets.

Cost of Sales

The Group's cost of sales for the year ended 31 December 2020 amounted to RMB2,006.8 million, including construction costs of RMB1,333.5 million and operation costs of water treatment plants of RMB673.3 million, and representing an increase of approximately 21% as compared to the previous corresponding period of RMB1,652.6 million. The increase was due to the increase in construction and operation costs. The increase in construction costs was mainly due to the increase in the construction work of existing and new projects which was in line with the increase of construction revenue. The increase in operation cost was in line with the increase of daily wastewater treatment capacity.

Gross Profit Margin

For the year ended 31 December 2020, the Group's gross profit margin was approximately 40%, representing a slight decrease as compared to the previous corresponding period of approximately 41%.

Other Income and Gains

The Group recorded other income and gains of RMB107.2 million for the year ended 31 December 2020, representing a decrease of approximately 41% as compared to the previous corresponding period of RMB182.0 million. The amount for this Reporting Period primarily included government grants of RMB50.0 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 RMB4.7 million, interest income of RMB18.9 million from loans to third parties and a joint venture, gains on foreign exchanges of RMB5.6 million, and other investment income of RMB26.2 million.

* For identification purposes only

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2020 was RMB2.5 million, representing a significant decrease of approximately 50% as compared to RMB5.0 million in the previous corresponding period, which was a result of stringent management and cost control.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2020 was RMB217.6 million, representing a decrease of approximately 11% as compared to the previous corresponding period of RMB243.8 million. The decrease was mainly due to the decrease in staff costs, traveling and entertainment expenses, and share options expenses. The decrease in staff costs and traveling and entertainment expenses was mainly due to the stringent management and cost control. No share options expenses were incurred during the Reporting Period.

Other Expenses

The Group's other expenses for the year ended 31 December 2020 was RMB35.9 million, representing an increase of approximately 18% as compared to the previous corresponding period of RMB30.4 million. The amount for this period primarily included impairment of trade receivables, financial receivables, and other receivables of RMB32.4 million.

Finance Costs

The Group's finance costs for the year ended 31 December 2020 of RMB561.8 million mainly comprised interests on interest-bearing bank and other borrowings and corporate bonds, representing a slight increase as compared to RMB557.5 million in the previous corresponding period. The increase in finance costs was mainly due to the slight increase of average interest-bearing bank and other borrowings and corporate bonds, and higher interest rate on long-term interest-bearing bank and other borrowings. The average balance of interest-bearing bank and other borrowings and corporate bonds increased by RMB18.2 million and the average interest rate was 6.11%, representing an increase of 0.03 percentage points as compared to that in the previous corresponding period. The increase in average interest rate was mainly due to the change in the loan structure, the long-term interest-bearing bank and other borrowings obtained which bore a relatively higher rate than the short-term one. The Group will further seek practical way to optimize loan structure, expand financing channels and methods and lower the average interest rate in the coming year.

Share of Profits and Losses of Associates

The Group's share of losses of associates for the year ended 31 December 2020 was RMB2.7 million, representing a sharp decrease as compared to share of profits of associates of RMB1.4 million in the previous corresponding period. The Group will execute practical ways to reduce the losses brought by the associates.

Share of Profits and Losses of Joint Ventures

The Group's share of losses of joint ventures for the year ended 31 December 2020 was RMB4.8 million, representing a sharp decrease as compared to share of profits of joint ventures of RMB0.4 million in the previous corresponding period. The Group had executed practical ways to reduce the losses brought by the joint ventures.

Income Tax Expense

Income tax expense for the year ended 31 December 2020 included the current PRC income tax of RMB34.2 million and deferred tax expenses of RMB103.1 million, which were RMB41.2 million and RMB84.6 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2020 was approximately 23%, representing a decrease of 2 percentage points as compared with approximately 25% for the previous corresponding period, which was mainly due to the increase in effect of lower tax rates for specific provinces or enacted by local authority.

Financial Receivables

	As at	
	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Receivables for service concession arrangements	10,006,697	9,157,975
Portion classified as current	(1,692,798)	(1,643,994)
Non-current portion	<u>8,313,899</u>	<u>7,513,981</u>

As at 31 December 2020, the Group's financial receivables of RMB10,006.7 million (31 December 2019: RMB9,158.0 million) increased by RMB848.7 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 2020 RMB'000	31 December 2019 RMB'000
Contract assets	2,297,247	2,249,371
Portion classified as current	<u>(222,337)</u>	<u>(222,236)</u>
Non-current portion	<u>2,074,910</u>	<u>2,027,135</u>

As at 31 December 2020, the Group's contract assets of RMB2,297.2 million (31 December 2019: RMB2,249.4 million), increased by RMB47.8 million, mainly due to the net impact of reclassification from contract assets to financial receivables and the increase of construction of the Group's projects under BOT, PPP, and EPC contracts.

Trade and Bills Receivables

As at 31 December 2020, the Group's trade and bills receivables of RMB1,527.0 million (31 December 2019: RMB1,363.6 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB163.4 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB156.1 million, (ii) the net increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB24.4 million, which included EPC project receivables of approximately RMB397.8 million arising from the progress billing and cash collected from EPC and Build-Transfer projects of approximately RMB373.4 million, and (iii) the increase of Rural Water Improvement projects receivables of approximately RMB5.4 million.

Prepayments, Other Receivables and Other Assets

As at 31 December 2020, the Group's prepayments, other receivables and other assets of RMB791.2 million (31 December 2019: RMB839.9 million) decreased by RMB48.7 million, mainly arising from the decrease in prepayments of approximately RMB13.2 million related to the construction of wastewater treatment plants, the decrease in other operational receivables and accrued interests of approximately RMB24.4 million, the decrease in loans to a third party of approximately RMB30.0 million, the decrease in staff advances of approximately RMB7.4 million, and increase from deductible input VAT of approximately RMB34.0 million.

Cash and Cash Equivalents

As at 31 December 2020, the Group's cash and cash equivalents of RMB430.3 million (31 December 2019: RMB225.7 million) increased by RMB204.6 million as compared with that as at the end of previous period. The increase was due to the increase in cash inflows from operating activities and investing activities of the Group.

	For the year ended	
	31 December	
	2020	2019
	RMB'000	RMB'000
Net cash flows from operating activities ⁽¹⁾	243,726	115,022
Net cash flows from/(used in) investing activities	337,174	(172,018)
Net cash flows used in financing activities	<u>(380,765)</u>	<u>(694,063)</u>
Net increase/(decrease) in cash and cash equivalents	200,135	(751,059)
Effect of foreign exchange rate changes	4,455	485
Cash and cash equivalents at beginning of the period	<u>225,672</u>	<u>976,246</u>
Cash and cash equivalents at end of the period	<u><u>430,262</u></u>	<u><u>225,672</u></u>

Note:

- (1) For the year ended 31 December 2020 and 2019, the Group invested RMB791.8 million and RMB567.1 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 2020 and 2019, the Group would have incurred cash inflows of RMB1,035.5 million and RMB682.1 million, respectively, if the Group's investments in BOT/TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2020, the Group's trade and bills payables of RMB2,059.9 million (31 December 2019: RMB1,783.0 million) increased by RMB276.9 million, which was in line with the increase of the Group's construction work in progress and the settlements.

Other Payables and Accruals

As at 31 December 2020, the Group's other payables and accruals of RMB240.2 million (31 December 2019: RMB360.6 million) decreased by RMB120.4 million, which was mainly due to the decrease in payables for acquisitions and amounts due to related parties.

Liquidity and Financial Resources

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

As at 31 December 2020, the carrying amount of the Group's cash and cash equivalents was RMB430.3 million, representing an increase of approximately RMB204.6 million as compared to RMB225.7 million as at 31 December 2019, which was mainly due to the net cash inflows of RMB243.7 million from operating activities, the net cash outflows used in financing activities of RMB380.8 million, settlements of acquisition and investing payables of RMB64.4 million and cash outflows of RMB227.3 million for purchases of property, plant and equipment and intangible assets in investing activities, cash outflows of RMB52.4 million for increase in pledged deposits, repurchase of other current financial assets of RMB623.6 million, repayments of loans to a third party of RMB30.0 million, interest received from third parties of RMB26.1 million, cash inflows of RMB0.8 million for disposal of a subsidiary from investing activities, and cash inflows of RMB0.8 million for disposal of property, plant and equipment and intangible assets from investing activities.

As at 31 December 2020, the Group's total interest-bearing debts slightly increased to RMB9,272.8 million (31 December 2019: RMB9,109.4 million), which comprised of bank and other borrowings amounted to RMB8,688.5 million (31 December 2019: RMB7,632.6 million) and corporate bonds amounted to RMB584.3 million (31 December 2019: RMB1,476.8 million). As at 31 December 2020, 75.6% (31 December 2019: 54.7%) of the Group's interest-bearing debts are long term; over 61% of interest-bearing bank and other borrowings bear interest at floating rates and all the corporate bonds bear interest at fixed rates.

As at 31 December 2020, the Group had banking facilities amounting to RMB58,024.8 million, of which RMB49,569.0 million have not been utilized. The unutilized amount of RMB49,569.0 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 31 December 2020, the gearing ratio of the Group (calculated by total liabilities divided by total assets) slightly decreased to 71.0%, while the gearing ratio was 72.5% as at 31 December 2019.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2020 was approximately RMB8,688.5 million, which were repayable within one month to twenty-five years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, trade receivables, and contract assets, of which the total amounts of the pledge of assets amounted to RMB9,422.0 million.

Capital Expenditure

During the year ended 31 December 2020, the Group's total capital expenditure were RMB1,171.0 million, compared to RMB1,204.3 million in 2019, primarily including the consideration of approximately RMB1,104.7 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB64.4 million for acquisition of equity interests in subsidiaries, and an associate.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,448 employees as at 31 December 2020. 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.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (31 December 2019: 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 2020, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, no significant events took place subsequent to 31 December 2020.

PROPOSED FINAL DIVIDEND

The Board did not recommend payment of the final dividend for the year ended 31 December 2020 (year ended 31 December 2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 4 June 2021 to Wednesday, 9 June 2021, 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, 9 June 2021. 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, 3 June 2021.

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 2020 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 2020, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

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

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2020 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

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

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2020.

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 2020.

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

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2020 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, 25 March 2021

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.