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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 2022**

HIGHLIGHTS

- Revenue was approximately RMB2,896.6 million, representing a decrease of approximately 0.8% over the last year owing to the decrease in revenue from construction services.
- Gross profit was RMB1,268.6 million, representing a decrease of 5.0% over the last year. Gross profit margin was approximately 44%, representing a decrease of 2 percentage points over the last year contributed by the general increases in operating costs.
- Profit attributable to owners of the parent was approximately RMB235.7 million, representing a decrease of approximately 42.9% as compared to the last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year were RMB11.01 cents, representing a decrease of approximately 42.9% as compared with RMB19.29 cents of the last year.
- Net cash inflow from operating activities recorded RMB368.4 million, representing an increase of 15.1% over the last year.
- For the year ended 31 December 2022, the actual aggregate processing volume reached 1,226.6 million tonnes, representing a decrease of approximately 2.8% as compared with 1,262.4 million tonnes of the last year.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2022.

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 2022 together with the comparative figures for the year ended 31 December 2021 as follows:

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

Year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
REVENUE	3	2,896,589	2,918,958
Cost of sales		<u>(1,627,942)</u>	<u>(1,583,680)</u>
Gross profit		1,268,647	1,335,278
Other income and gains	4	53,873	106,557
Selling and distribution expenses		(936)	(1,117)
Administrative expenses		(274,125)	(245,965)
Other expenses		(105,868)	(76,400)
Finance costs	5	(566,214)	(565,688)
Share of profits and losses of:			
Associates		2,554	(270)
Joint ventures		<u>(3,590)</u>	<u>(2,150)</u>
PROFIT BEFORE TAX	6	374,341	550,245
Income tax expense	7	<u>(134,379)</u>	<u>(132,064)</u>
PROFIT FOR THE YEAR		<u>239,962</u>	<u>418,181</u>
Attributable to:			
Owners of the parent	8	235,679	412,752
Non-controlling interests		<u>4,283</u>	<u>5,429</u>
		<u>239,962</u>	<u>418,181</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>11.01 cents</u>	<u>19.29 cents</u>
Diluted for profit for the year (expressed in RMB per share)	8	<u>11.01 cents</u>	<u>19.29 cents</u>

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

Year ended 31 December 2022

	2022	2021
	RMB'000	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	115,000	(90,000)
Income tax effect	(17,250)	13,500
	97,750	(76,500)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	97,750	(76,500)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	97,750	(76,500)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	337,712	341,681
Attributable to:		
Owners of the parent	333,429	336,252
Non-controlling interests	4,283	5,429
	337,712	341,681

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		59,006	66,784
Investment properties		11,218	12,094
Right-of-use assets		1,435	1,718
Investments in associates		381,131	376,773
Investments in joint ventures		78,419	82,009
Equity investments designated at fair value through other comprehensive income		–	248,000
Service concession intangible assets		1,436,965	1,084,506
Other intangible assets		2,171	2,577
Goodwill		58,325	58,325
Financial receivables	9	9,244,530	9,100,153
Deferred tax assets		75,058	96,409
Prepayments, other receivables and other assets		73,754	120,765
Contract assets	10	1,508,393	1,649,274
		<hr/>	<hr/>
Total non-current assets		12,930,405	12,899,387
		<hr/> <hr/>	<hr/> <hr/>
CURRENT ASSETS			
Inventories		17,482	17,077
Contract assets	10	198,553	323,761
Equity investments designated at fair value through other comprehensive income		363,000	–
Financial receivables	9	1,961,955	1,878,059
Trade receivables	11	2,436,439	1,776,560
Prepayments, other receivables and other assets		674,372	734,365
Pledged deposits		186,561	333,870
Cash and cash equivalents		196,938	289,898
Other current financial assets		45	28,431
		<hr/>	<hr/>
Total current assets		6,035,345	5,382,021
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	2,260,221	2,056,753
Other payables and accruals		257,076	247,192
Deferred income		1,930	7,027
Interest-bearing bank and other borrowings	13	2,879,809	3,197,997
Tax payable		59,403	58,491
		<u>5,458,439</u>	<u>5,567,460</u>
Total current liabilities		<u>5,458,439</u>	<u>5,567,460</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>576,906</u>	<u>(185,439)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>13,507,311</u>	<u>12,713,948</u>
NON-CURRENT LIABILITIES			
Trade payables	12	59	62
Interest-bearing bank and other borrowings	13	6,642,008	6,271,742
Deferred income		–	1,930
Other payables and accruals		31,026	30,991
Deferred tax liabilities		1,093,610	1,001,602
		<u>7,766,703</u>	<u>7,306,327</u>
Total non-current liabilities		<u>7,766,703</u>	<u>7,306,327</u>
Net assets		<u>5,740,608</u>	<u>5,407,621</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		17,125	17,125
Reserves		5,586,310	5,252,881
		<u>5,603,435</u>	<u>5,270,006</u>
Non-controlling interests		<u>137,173</u>	<u>137,615</u>
Total equity		<u>5,740,608</u>	<u>5,407,621</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2022. 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.

1.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “Conceptual Framework”) issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 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>
Segment revenue				
Sales to external customers	2,723,107	114,410	59,072	2,896,589
	2,723,107	114,410	59,072	2,896,589
Segment results	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)				(168,255)
				<u>374,341</u>
Profit before tax				
Segment assets	16,067,718	1,422,044	673,140	18,162,902
<i>Reconciliation:</i>				
Corporate and other unallocated assets				802,848
Total assets				<u>18,965,750</u>
Segment liabilities	12,061,589	522,441	515,810	13,099,840
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				125,302
Total liabilities				<u>13,225,142</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>
Other segment information				
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	(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.

2. OPERATING SEGMENT INFORMATION (continued)

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

2. OPERATING SEGMENT INFORMATION (continued)

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

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

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Mainland China	<u>2,896,589</u>	<u>2,918,958</u>

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

(b) Non-current assets

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Mainland China	<u>12,855,347</u>	<u>12,802,978</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 2022

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

Year ended 31 December 2021

	Urban Water Treatment <i>RMB'000</i>	Total <i>RMB'000</i>
Customer B	229,661	229,661
Customer C	<u>206,772</u>	<u>206,772</u>
	<u>436,433</u>	<u>436,433</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 on financial receivables. The amounts of each of the significant categories of revenue during the year are as follows:

Revenue from contracts with customers

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from operating services	1,267,485	1,200,545
Revenue from construction services	893,178	1,008,451
Financial income	735,926	709,962
	<u>2,896,589</u>	<u>2,918,958</u>

3. REVENUE (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information

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
Revenue from contracts with customers	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>
Geographical market				
Mainland China	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>
Total revenue from contracts with customers	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>
Timing of revenue recognition				
Services transferred over time	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>
Total revenue from contracts with customers	<u>2,723,107</u>	<u>114,410</u>	<u>59,072</u>	<u>2,896,589</u>

For the year ended 31 December 2021

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

3. REVENUE (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

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

(b) Performance obligations

The aggregate amount of the transaction prices allocated to the performance obligations of BOT and TOT arrangements that are unsatisfied (or partially unsatisfied) as at 31 December 2022 was RMB35 billion(2021: RMB38 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

	2022 RMB'000	2021 RMB'000
Government grants*	25,447	60,491
Interest income from loans to third parties	18,672	22,869
Bank interest income	3,560	2,557
Interest income from loans to a joint venture and an associate	840	700
Rental income less depreciation of investment properties	516	490
Investment income from other current financial assets	–	8,508
Foreign exchange differences, net	–	7,250
Others	4,838	3,692
	<u>53,873</u>	<u>106,557</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

	2022 RMB'000	2021 RMB'000
Interest on interest-bearing bank and other borrowings	566,106	536,451
Interest on lease liabilities	108	98
Interest on corporate bonds	–	29,139
	<u>566,214</u>	<u>565,688</u>

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Cost of construction services		758,048	824,663
Cost of operation services		869,894	759,017
Total cost of services		1,627,942	1,583,680
Depreciation of property, plant and equipment		6,877	6,814
Depreciation of right-of-use assets		283	283
Amortisation of service concession intangible assets		77,654	63,925
Amortisation of other intangible assets		406	385
Impairment of goodwill [#]		–	1,894
Impairment of financial receivables [#]	9	(67)	452
Impairment of contract assets [#]	10	(547)	962
Impairment of trade receivables [#]	11	36,080	26,404
Impairment of other receivables [#]		2,579	17,295
Lease payments not included in the measurement of lease liabilities		278	286
Auditor's remuneration		2,656	2,826
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		250,065	241,038
Pension scheme contributions (defined contribution scheme)*		24,153	23,293
Total employee benefit expense		274,218	264,331
Operating lease income		(1,392)	(1,366)
Less: Depreciation of investment properties		876	876
Rental income less depreciation of investment properties	4	(516)	(490)
Bank interest income	4	(3,560)	(2,557)
Government grants	4	(25,447)	(60,491)
Interest income from loans to third parties	4	(18,672)	(22,869)
Interest income from loans to a joint venture and an associate	4	(840)	(700)
Investment income from other current financial assets	4	–	(8,508)
Loss on disposal of items of property, plant and equipment, net		39	478
Loss on disposal of subsidiaries		1,359	4,530
Foreign exchange differences, net		47,918	(7,250)
Gains on disposal of service concession intangible assets, net		–	(694)

[#] The impairment of goodwill, 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.

* 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.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current		
— Mainland China	36,901	44,342
Deferred	<u>97,478</u>	<u>87,722</u>
Total tax charge for the year	<u><u>134,379</u></u>	<u><u>132,064</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 (2021: 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 2022 and 2021.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>235,679</u>	<u>412,752</u>
	Number of shares	
	2022	2021
Shares:		
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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Receivables for service concession arrangements	11,208,671	10,980,465
Impairment	<u>(2,186)</u>	<u>(2,253)</u>
	11,206,485	10,978,212
Portion classified as current assets	<u>(1,961,955)</u>	<u>(1,878,059)</u>
Non-current portion	<u><u>9,244,530</u></u>	<u><u>9,100,153</u></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. 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year	2,253	1,801
Impairment losses	<u>(67)</u>	<u>452</u>
At end of year	<u><u>2,186</u></u>	<u><u>2,253</u></u>

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

The decrease in the loss allowance was due to the decrease in the published credit ratings of credit bonds issued in Mainland China.

As at 31 December 2022, the Group's financial receivables with a carrying value of RMB7,114,919,000 (2021: RMB7,120,278,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

10. CONTRACT ASSETS

	31 December 2022 RMB'000	31 December 2021 RMB'000
Contract assets arising from:		
Construction services	1,707,764	1,974,400
Impairment	<u>(818)</u>	<u>(1,365)</u>
	<u>1,706,946</u>	<u>1,973,035</u>
Proportion classified as current assets	<u>(198,553)</u>	<u>(323,761)</u>
Non-current portion	<u>1,508,393</u>	<u>1,649,274</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 2022 was the result of the completion of construction services.

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

	2022 RMB'000	2021 RMB'000
At beginning of the year	1,365	403
Impairment losses, net	<u>(547)</u>	<u>962</u>
At end of the year	<u>818</u>	<u>1,365</u>

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

At 31 December 2022, the Group's contract assets with a carrying value of RMB220,770,000 (2021: RMB274,223,000) 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 RMB47,245,000 (2021: RMB114,141,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

11. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	2,515,835	1,820,962
Impairment	<u>(79,396)</u>	<u>(44,402)</u>
	<u>2,436,439</u>	<u>1,776,560</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 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 (2021: nil) and RMB242,815,000 (2021: RMB209,649,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2022, the Group's trade receivables with a carrying value of RMB911,844,000 (2021: RMB777,488,000) 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	479,263	411,569
4 to 6 months	291,946	241,979
7 to 12 months	597,215	401,819
Over 12 months	<u>1,068,015</u>	<u>721,193</u>
	<u>2,436,439</u>	<u>1,776,560</u>

11. TRADE RECEIVABLES (continued)

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

	2022	2021
	RMB'000	RMB'000
At beginning of the year	44,402	29,366
Impairment losses, net	36,080	26,404
Amount written off as uncollectible	(1,086)	(11,368)
	<hr/>	<hr/>
At end of the year	79,396	44,402
	<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 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

As at 31 December 2021

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

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.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bills payable (<i>note (a)</i>)	161,364	217,595
TOT payables (<i>note (b)</i>)	3,985	3,985
Trade payables	<u>2,094,931</u>	<u>1,835,235</u>
	<u>2,260,280</u>	<u>2,056,815</u>
Less: Non-current portion	<u>59</u>	<u>62</u>
Current portion	<u>2,260,221</u>	<u>2,056,753</u>

Notes:

- (a) As at 31 December 2022, the Group's bills payable were secured by the pledged deposits amounting to RMB136,742,000 (2021: RMB228,224,000).
- (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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	629,083	448,342
4 to 6 months	255,423	392,028
7 to 12 months	296,107	434,152
Over 12 months	<u>1,079,667</u>	<u>782,293</u>
	<u>2,260,280</u>	<u>2,056,815</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 (2021: RMB10,120,000).

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2022			31 December 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities	4.91	2023	271	4.91	2022	335
Bank loans — secured	3.45–4.35	2023	322,906	3.45–4.35	2022	462,300
Bank loans — unsecured	3.45–7.08	2023	1,405,123	3.85–7.08	2022	1,033,290
Current portion of long term bank loans — secured	3.47–8.02	2023	568,242	4.60–6.50	2022	562,448
Current portion of long term bank loans — unsecured	5.00–5.30	2023	71,188	4.55–6.18	2022	791,783
Current portion of long term other loans — secured	4.84–7.14	2023	491,157	5.60–6.65	2022	305,211
Current portion of long term other loans — unsecured	7.80–8.43	2023	20,922	4.35–8.43	2022	42,630
Non-current			<u>2,879,809</u>			<u>3,197,997</u>
Lease liabilities	4.91	2024–2039	1,703	4.91	2023–2039	1,875
Long term bank loans — secured	3.47–6.50	2024–2045	3,946,288	4.25–6.50	2023–2045	4,075,765
Long term bank loans — unsecured	1.20–5.00	2024–2026	67,163	4.90–5.30	2023	319,141
Long term other loans — secured	4.84–7.14	2024–2030	1,799,800	5.60–6.65	2023–2026	880,115
Long term other loans — unsecured	7.80–8.43	2024–2026	827,054	1.20–8.43	2023–2026	994,846
			<u>6,642,008</u>			<u>6,271,742</u>
			<u>9,521,817</u>			<u>9,469,739</u>
Interest-bearing bank and other borrowings denominated in						
— RMB			9,274,240			9,024,961
— United States dollars			247,577			444,778
			<u>9,521,817</u>			<u>9,469,739</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	2,879,809	3,197,997
In the second year	2,176,609	2,011,492
In the third to fifth years, inclusive	2,022,997	1,984,763
Beyond five years	2,442,402	2,275,487
	<u>9,521,817</u>	<u>9,469,739</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Property, plant and equipment	11,792	13,619
Financial receivables (<i>note 9</i>)	7,114,919	7,120,278
Trade receivables (<i>note 11</i>)	911,844	777,488
Pledged deposits	20,400	67,430
Service concession intangible assets	1,258,955	1,033,590
Contract assets (<i>note 10</i>)	220,770	274,223

The Group's interest-bearing bank and other borrowings of RMB4,134,215,000 (2021: RMB2,599,726,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB563,033,000 (2021: RMB693,290,000) were guaranteed by the second largest shareholder.

14. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2022 (the “Reporting Period”), the Group’s principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the operation and maintenance of wastewater treatment facilities entrusted by governments (the “O&M”). The Group’s business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the “PPP”), Build-Own-Operate (the “BOO”), Engineering-Procurement- Construction (the “EPC”) and O&M. The Group had 101 service concession arrangement projects under operation while its operational treatment capacity was over 4 million tons per day as at 31 December 2022.

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

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

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

1.1 Urban Water Treatment

As at 31 December 2022, the Group had entered into a total of 112 service concession arrangements projects, including 106 wastewater treatment plants, 1 water distribution plant, 3 sludge treatment plants and 2 reclaimed water treatment plants. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

Analysis of the Group's projects on hand as at 31 December 2022 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	3,989,500	–	65,000	550	4,055,050
Not yet start operation/ Not yet transferred	275,500	30,000	–	–	305,500
Total	4,265,000	30,000	65,000	550	4,360,550
<i>(Number of projects)</i>					
In operation	96	–	2	3	101
Not yet start operation/ Not yet transferred	10	1	–	–	11
Total	106	1	2	3	112

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the year ended 31 December 2022 (Million Tonnes)
Wastewater treatment services			
Shandong	47	1,270,000	358.7
Henan	23	1,060,000	311.3
Heilongjiang	6	425,000	142.7
Shanxi	2	350,000	106.4
Zhejiang	2	250,000	84.0
Guangdong	4	220,000	62.2
Anhui	3	175,000	56.0
Jiangsu	5	100,000	31.5
Other provinces/municipalities*	14	415,000	70.3
	106	4,265,000	1,223.1
Water distribution services	1	30,000	–
Reclaimed water treatment services	2	65,000	3.5
Total	109	4,360,000	1,226.6
Sludge treatment services			
	3	550	–
Total	112	4,360,550	1,226.6

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

1.1.1 Operation Services

As at 31 December 2022, the Group had 96 wastewater treatment projects, 2 reclaimed water treatment projects and 3 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plants, and sludge treatment plants in operation for the year ended 31 December 2022 reached 3,989,500 tonnes (2021: 3,961,500 tonnes), 65,000 tonnes (2021: 65,000 tonnes), and 550 tonnes (2021: 550 tonnes), respectively. For the year ended 31 December 2022, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 82% (2021: 86%). The actual average water treatment tariff for the year ended 31 December 2022 was approximately RMB1.56 per tonne (2021: approximately RMB1.49 per tonne). The actual aggregate processing volume for the year ended 31 December 2022 was 1,226.6 million tonnes, representing a minor decrease of 3% as compared to the same period last year (year ended 31 December 2021: 1,262.4 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2022 was RMB1,243.3 million, representing an increase of approximately 5% as compared to the same period of last year (year ended 31 December 2021: RMB1,185.9 million). The corresponding increase was primarily due to the increase in the daily wastewater treatment capacity, and the increased operation numbers of upgrade projects.

1.1.2 Construction Services

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

For the year ended 31 December 2022, construction revenue was recognised for 25 projects, including 21 wastewater treatment plants, 1 water distribution plant, 1 reclaimed water treatment plant, and 2 sludge treatment plants, which were mainly located in Shandong, Henan, and Shanxi provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2022 was RMB753.0 million, representing a year-on-year decrease of approximately 4% (year ended 31 December 2021: RMB780.7 million). The corresponding decrease was primarily due to a decrease in the project numbers during the main construction period. As at 31 December 2022, the total daily treatment capacity of the service concession arrangements plants, which were still in the construction stage, was 180,500 tonnes, including 150,500 tonnes of wastewater treatment plants and 30,000 tonnes of water distribution plants.

1.2 Water Environment Comprehensive Remediation

In the year of 2022, the Group continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 31 December 2022, most of the projects have been completed. The Group devoted efforts to lower the risk and enhance the reasonable profit for the existing projects. The Group will integrate resources to execute the Water Environment Comprehensive Remediation projects under the contracts of EPC and O&M.

The Group had 7 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2022. The projects were mainly located in Jiangxi and Shandong provinces in Mainland China. For the year ended 31 December 2022, total revenue of those projects was RMB114.4 million, representing a year-on-year decrease of approximately 23% (year ended 31 December 2021: RMB147.7 million). The corresponding decrease was primarily due to the completion of partial existing EPC projects.

1.3 Rural Water Improvement

The Group had 2 Rural Water Improvement projects during the year ended 31 December 2022. The projects were located in Guangdong province in Mainland China. For the year ended 31 December 2022, total revenue of those projects was RMB59.1 million, representing a year-on-year decrease of approximately 43% (year ended 31 December 2021: RMB102.9 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 2022, the Group recorded a revenue of RMB2,896.6 million, representing a minor decrease of RMB22.4 million as compared to the previous corresponding period of RMB2,919.0 million. The decrease was mainly due to the decrease in construction revenue of RMB115.3 million, the increase in operation revenue of RMB67.0 million, and the increase in financial income of RMB25.9 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 partial existing EPC projects of Water Environment Comprehensive Remediation services, and the commencement of 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 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 2022 amounted to RMB1,627.9 million, including construction costs of RMB758.0 million and operation costs of water treatment plants of RMB869.9 million, representing an increase of approximately 3% as compared to the previous corresponding period of RMB1,583.7 million. The increase was due to the net impact of increase in operation costs and decrease in construction cost. The increase in operation cost was mainly due to the increases in costs of electricity, wastewater treatment chemicals, etc. 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.

Gross Profit Margin

For the year ended 31 December 2022, the Group's gross profit margin was approximately 44%, representing a decrease of 2 percentage points as compared to the previous corresponding period of approximately 46%. The decrease was primarily due to the decrease in operation gross margin this period.

Other Income and Gains

The Group recorded other income and gains of RMB53.9 million for the year ended 31 December 2022, representing a decrease of approximately 49% as compared to the previous corresponding period of RMB106.6 million. The amount for the Reporting Period primarily included government grants of RMB25.4 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 RMB3.6 million, interest income of RMB19.5 million from loans to third parties, a joint venture, and an associate.

Administrative Expenses

The Group’s administrative expenses for the year ended 31 December 2022 was RMB274.1 million, representing an increase of approximately 11% as compared to the previous corresponding period of RMB246.0 million. The increase was mainly due to the increase in professional fees and staff costs.

Other Expenses

Other expenses for the year ended 31 December 2022 was RMB105.9 million, representing an increase of approximately 39% as compared to the previous corresponding period of RMB76.4 million. The increase was mainly due to increase in foreign exchange losses which was partially offset by the decrease of impairment losses, non-operating expenses, and losses on disposal of subsidiaries recognised in the Reporting Period.

Finance Costs

The Group’s finance costs for the year ended 31 December 2022 of RMB566.2 million mainly comprised interests on interest-bearing bank and other borrowings, representing a slight increase as compared to RMB565.7 million in the previous corresponding period. The increase in finance costs was in line with the increase in the average balance of interest-bearing bank and other borrowings. The average balance of interest-bearing bank and other borrowings increased by RMB124.5 million and the average interest rate was 5.96%, representing a decrease of 0.08 percentage points as compared to that in the previous corresponding period. The decrease in average interest rate was mainly due to the increase in the proportion of short-term interest-bearing bank and other borrowings. The Group will further seek practical ways to optimize loan structure, expand financing channels and methods and lower the average interest rate in the coming year.

* For identification purposes only

Share of Profits and Losses of Associates

The Group's share of profits of associates for the year ended 31 December 2022 was RMB2.6 million, representing a major increase as compared to share of losses of associates of RMB0.3 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 2022 was RMB3.6 million, representing a major increase as compared to share of losses of joint ventures of RMB2.2 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 2022 included the current PRC income tax of RMB36.9 million and deferred tax expenses of RMB97.5 million, which were RMB44.3 million and RMB87.8 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2022 was approximately 36%, representing an increase of 12 percentage points as compared with approximately 24% for the previous corresponding period, which was mainly due to the increase in effect of tax losses not recognised in the Reporting Period and reversal of tax losses recognised in previous Periods.

Financial Receivables

	As at	
	31 December 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables for service concession arrangements	11,206,485	10,978,212
Portion classified as current	(1,961,955)	(1,878,059)
Non-current portion	<u>9,244,530</u>	<u>9,100,153</u>

As at 31 December 2022, the Group's financial receivables of RMB11,206.5 million (31 December 2021: RMB10,978.2 million) increased by RMB228.3 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 2022 RMB'000	31 December 2021 RMB'000
Contract assets	1,706,946	1,973,035
Portion classified as current	<u>(198,553)</u>	<u>(323,761)</u>
Non-current portion	<u>1,508,393</u>	<u>1,649,274</u>

As at 31 December 2022, the Group's contract assets of RMB1,706.9 million (31 December 2021: RMB1,973.0 million), decreased by RMB266.1 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 2022, the Group's trade and bills receivables of RMB2,436.4 million (31 December 2021: RMB1,776.6 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB659.8 million, mainly due to (i) the increase in Urban Water Treatment projects receivables of approximately RMB617.1 million, (ii) the net increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB59.9 million, which included EPC project receivables of approximately RMB209.0 million arising from the progress billing and cash collected from EPC and Build-Transfer projects of approximately RMB149.1 million, and (iii) the increase in Rural Water Improvement projects receivables of approximately RMB17.8 million.

Prepayments, Other Receivables and Other Assets

As at 31 December 2022, the Group's prepayments, other receivables and other assets of RMB748.1 million (31 December 2021: RMB855.1 million) decreased by RMB107.0 million, mainly arising from the decrease in deductible input VAT of approximately RMB109.2 million, the decrease in loans to a third party of RMB20.0 million, the decrease in prepayments and deposits of approximately RMB6.2 million related to the construction of wastewater treatment plants, the increase in loans to an associate of approximately RMB12.2 million, and the increase in other operational receivables and staff advances of approximately RMB17.7 million.

Cash and Cash Equivalents

As at 31 December 2022, the Group's cash and cash equivalents of RMB196.9 million (31 December 2021: RMB289.9 million) decreased by RMB93.0 million as compared with that as at the end of previous corresponding period. The decrease was due to the increase in cash outflows in financing activities of the Group.

	For the year ended	
	31 December	
	2022	2021
	RMB'000	RMB'000
Net cash flows from operating activities ⁽¹⁾	368,409	320,165
Net cash flows from/(used in) investing activities	101,982	(122,083)
Net cash flows used in financing activities	(563,029)	(337,877)
Net increase in cash and cash equivalents	(92,638)	(139,795)
Effect of foreign exchange rate changes	(322)	(569)
Cash and cash equivalents at beginning of the period	289,898	430,262
Cash and cash equivalents at end of the period	196,938	289,898

Note:

- (1) For the year ended 31 December 2022 and 2021, the Group invested RMB311.0 million and RMB507.1 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 2022 and 2021, the Group would have incurred cash inflows of RMB679.4 million and RMB827.3 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 2022, the Group's trade and bills payables of RMB2,260.2 million (31 December 2021: RMB2,056.8 million) increased by RMB203.4 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 2022, the Group's other payables and accruals of RMB288.1 million (31 December 2021: RMB278.2 million), increased by RMB9.9 million, which was mainly due to the increase in salary and welfare 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 2022, the carrying amount of the Group's cash and cash equivalents was RMB196.9 million, representing a decrease of approximately RMB93.0 million as compared to RMB289.9 million as at 31 December 2021, which was mainly due to the net cash inflows of RMB368.4 million from operating activities, the net cash outflows used in financing activities of RMB563.0 million, settlements of acquisition and investing payables of RMB2.1 million and cash outflows of RMB79.5 million for purchases of property, plant and equipment and intangible assets in investing activities, cash inflows of RMB147.3 million for decrease in pledged deposits, repurchase of other current financial assets of RMB28.4 million, the net cash inflows of RMB7.9 million for decrease in loans to a third party and increase to an associate, cash outflows of RMB0.1 million for disposal of subsidiaries from investing activities, and cash inflows of RMB0.1 million for disposal of property, plant and equipment and intangible assets from investing activities.

As at 31 December 2022, the Group's total interest-bearing debts increased to RMB9,521.8 million (31 December 2021: RMB9,469.7 million), which comprised of bank and other borrowings only. As at 31 December 2022, 69.8% (31 December 2021: 66.2%) of the Group's interest-bearing debts are long term; over 63% of interest-bearing bank and other borrowings bear interest at floating rates.

As at 31 December 2022, the Group had banking facilities amounting to RMB57,197.6 million, of which RMB49,380.5 million have not been utilized. The unutilized amount of RMB49,380.5 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 31 December 2022, the gearing ratio of the Group (calculated by total liabilities divided by total assets) slightly decreased to 69.7%, while the gearing ratio was 70.4% 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 2022 was approximately RMB9,521.8 million, which were repayable within two months to twenty-three years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, trade receivables, contract assets and pledged deposits of which the total amounts of the pledge of assets amounted to RMB9,538.7 million.

Capital Expenditure

During the year ended 31 December 2022, the Group's total capital expenditure were RMB512.7 million, compared to RMB649.4 million in 2021, primarily including the consideration of approximately RMB510.1 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB2.1 million for acquisition of equity interests in subsidiaries, and an associate.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,318 employees as at 31 December 2022. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

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

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (31 December 2021: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2022, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed, no significant events took place subsequent to 31 December 2022.

PROPOSED FINAL DIVIDEND

The Board did not recommend payment of the final dividend for the year ended 31 December 2022 (year ended 31 December 2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 2 June 2023 to Wednesday, 7 June 2023, 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, 7 June 2023. 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, 1 June 2023.

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 2022 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 2022, 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 control and risk management systems, and monitor, review and assist in the research of the Company’s environmental, social and governance matters of the Company, The Audit Committee has reviewed and approved the final results for the year ended 31 December 2022 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 2022 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 2022.

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 2022.

**PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2022
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 2022 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, 31 March 2023

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.